House Financial Services Committee Holds Hearing on Student Loan Servicers Accountability

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Body

House Financial Services Committee Holds Hearing On ***Student*** Loan Servicers Accountability

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REP. ALMA ADAMS (D-N.C.)

REP. MADELEINE DEAN (D-PA.)

REP. JESUS "CHUY" GARCIA (D-ILL.)

REP. SYLVIA R. GARCIA (D-TEXAS)

REP. DEAN PHILLIPS (D-MINN.)

REP. PATRICK T. MCHENRY (R-N.C.), RANKING MEMBER

REP. PETER T. KING (R-N.Y.)

REP. FRANK D. LUCAS (R-OKLA.)

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REP. ANTHONY GONZALEZ (R-OHIO)

REP. JOHN W. ROSE (R-TENN.)

REP. BRYAN STEIL (R-WIS.)

REP. LANCE GOODEN (R-TEXAS)

REP. DENVER RIGGLEMAN (R-VA.)

[*]WATERS: The committee will come to order. Without objection, the chair is authorized to declare recess of the committee at any time. This hearing is entitled "A 1.5 Trillion Crisis: Protecting ***Student*** Borrowers and Holding ***Student*** Loan Services Accountable."

I now recognize myself for four minutes to give an opening statement.

Good morning. Today, this committee convenes a hearing to examine the ***student*** loan debt crisis. It appears that this may in fact, be the first ever full committee hearing in its history focused on ***student*** lending and the many financial ramifications it has for ***student*** borrowers. Given the scale of the crisis at hand, it is long overdue.

I thank Congressman Al Green, chairman of our Subcommittee on Oversight and Investigations for convening the subcommittee hearing on this subject earlier this year. I look forward to building on the insights from that hearing during our conversation today.

According to the Federal Reserve, Americans collectively have $1.6 trillion in ***student*** loan debt. That's more than credit card debt and more than car loan debt, trailing only mortgage debt. More than 44 million people carry ***student*** debt averaging almost $33,000.

Around nine million borrowers with federal ***student*** loans are currently in default. The burden of ***student*** loan debt is preventing young people from saving for retirement, starting small businesses, starting families and becoming homeowners. This crisis is affecting people across the country and ultimately, it negatively effects our entire economy.

Nevertheless, Trump's Education Secretary Betsy DeVos has consistently taken actions that are harmful for those with ***student*** loans and the Trump administrations appointees to the Consumer Financial ***Protection*** Bureau have also undermined key ***protections***.

Just last month, the Trump administration appointed a ***student*** loan ombudsman--a former executive of a major ***student*** loan servicer that is being investigated by several state attorneys general for illegal ***student*** loan servicing practices.

I'm pleased that we're joined by an outstanding panel of witnesses today including witnesses who have personally dealt with ***student*** loans, have used their positions to raise awareness about the ***student*** debt crisis or who have thought on behalf of consumers against the harmful practices of ***student*** loan services.

The Education and Labor Committee has an important role to play in this matter, but this committee does as well. Given the ***need*** to strengthen ***protections*** for ***student*** loan borrowers and conduct oversight in the area of ***student*** loan servicing, today we will discuss a series of bills that are designed to help ***student*** loan borrowers in a variety of ways.

These bills include creating a comprehensive ***student*** borrower bill of rights, strengthening credit reporting standards, stopping debt--private debt collectors from going after vulnerable ***student*** borrowers, protecting private ***student*** loan borrowers and helping borrowers with ***student*** debt purchase their first home.

Congress and this committee have a responsibility to take action to ensure ***student*** loan borrowers have been protected. And so, I now recognize the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for four minutes for an opening statement.

MCHENRY: Well, thank you, Madame Chair, and I appreciate the opportunity to discuss the ***student*** loan crisis.

Let's rewind. It's 2009--it's 2010. There are super majorities by the Democrats in the U.S. House and the U.S. Senate, and a democrat in the White House. And at that moment--in the midst of the Affordable Care Act--the nationalization of our ***student*** lending was added to that bill as a "pay for."

It is a consequence of Democrat policies that have nationalized the ***student*** debt lending in this country. And as a consequence of those actions, we've saddled a generation with unaffordable debt and an education that does not out match the cost of that education. This is a crisis, but it is a crisis that Congress created and foisted upon a generation debt.

Without that generation actually having the decision making nor the federal government the underwriting standards to ensure that good decisions were made and that we were going to give them a loan that they would be able to repay.

So, if you think about the consequences of the mortgage crisis that led to the financial crisis, part of that was congressional lawmaking, yes. But most of that was in the private sector. This matches that mortgage crisis, but it was federal action on the whole that has foisted debt upon a generation.

It is unconscionable. It is unconscionable that Congress would do that. We have to fix the law and ensure that the federal ***student*** debt is much more like the private ***student*** debt markets. So, though we ***don't*** have jurisdiction over the Department of Education where this is primarily done, we know the statistics.

Nearly 43 million individuals--1 in 6 Americans--have federal ***student*** debt. And according to the Institute for College Access and Success, the class of 2018 averages almost $30,000 of debt per ***student***.

The federal loan portfolio now exceeds $1.4 trillion and 5.2 million borrowers--of the 43 million total federal ***student*** loan borrowers--have loans in default. A significant portion of that debt is at risk of default as well. And not only is the federal government the lender of these loans, it's now the largest consumer lender in the nation.

They're not cheering for what I just said in the hallway. I can trust you.

(LAUGHTER)

Trust me. But think about that. The largest consumer lender in the nation. We ***don't*** adhere to the same laws that we demand of the private sector in how we foist this debt upon ***students*** and young people.

The federal government is the largest consumer lender. And the folks responsible for the stability and security of these loans are in the Department of Education which does not issue ***student*** loans issuing any type of underwriting standards. The federal government must become a responsible lender as we demand of the private sector. And we have to make sure the costs match the benefits in education.

So, we cannot address the ***student*** loan crisis in higher education unless we also talk about the cost of higher education. That too is not within our jurisdiction, but it's important for us to--to agree that that is something we should discuss and debate.

Student loan servicers do not set interest rates or loan terms. ***Student*** loan services are subjected--subject to strict rules and regulations. Mechanisms exist to ensure they are held accountable. That isn't the case for the loan originator--the federal government. We have to fix this.

And again, I look forward to the witnesses and again, highlight the fact that the jurisdiction of ***student*** lending is not within this committee's jurisdiction. I yield back.

WATERS: Thank you. I now recognize the chair on the Subcommittee on Consumer ***Protection*** and Financial Institutions, Mr. Meeks, for one minute.

MEEKS: Thank you, Madame Chair, for posing this very important hearing. The rapidly increasing growth of ***student*** debt is indeed a national crisis and it is not something that we should be playing politics with at all. It is something that we should be focused about doing something about because young people today have making--they make decisions that affect their lives because they are in debt.

Many of them--85 percent of African American young folks, they are already--who have bachelor's degrees? They're in debt. It causes them of having to make decisions of their not being able to buy a home, or start a family, or take a job they ***don't*** want to just because they want to take a job--they ***need*** a job to pay back.

It also causes them to be in a situation where they cannot achieve the American dream. We can--we must stop this of pointing fingers, and trying to figure out what's going on, and blaming, and this, and that. We've got to fix this problem because a whole generation of Americans--young Americans are not going to have the benefit of the United States of American and that American dream.

It is time for us to fix it. Democrats, Republicans, ***don't*** let our young people suffer because of our own disagreements. And I yield back.

WATERS: Thank you. I now recognize the ranking member of the subcommittee, the gentleman from Missouri, Mr. Luetkemeyer, for one minute for an opening statement.

LUETKEMEYER: Thank you, Madame Chair. Foundation of the American dream is the idea that a free market economy will allow entrepreneurs, business and workers to succeed. Time and time again, competition innovation. The private market provides American consumers with the best products and services.

Nearly a decade after the government takeover of ***student*** lending, the federal government is the largest consumer lender owning or guaranteeing 92 percent of all ***student*** loans or $1.4 trillion of ***student*** debt.

The reality is the federal government has taken over a massive loan portfolio without practicing anything that even resembles sound lending. The government is lending to millions of ***students*** without adequate underwriting resulting in 22 percent of federal borrowers being seriously delinquent in comparison to 1.5 percent of private loans according to the Federal Reserve Bank of New York.

I can tell you as someone who made ***student*** loans 30 plus years ago that we tried to help ***students***, not hurt them, that the system today is broken. In my opinion, the government doesn't ***need*** to be in the business of direct lending at all. And there's numerous mitigating factors that contribute to ***student*** debt today. We must start looking at and start perdue--producing some reforms that actually help our ***students*** and our citizens.

With that, I yield back.

WATERS: I want to welcome today's distinguished panel. Mr. Seth Frotman, executive director of the ***Student*** Borrower ***Protection*** Center, Ms. Persis Yu, staff attorney at the National Consumer Law Center, Ms. Ashley Harrington, Senior Policy Council, Center for Responsible Lending, Mr. Hassan Minhaj, writer, producer and host who has shed light on the issue of ***student*** loan servicing. Mr. Jason Delisle, American Enterprise Institute.

Without objection, all of your written statements will be made part of the record. Each of you will have five minutes to summarize your testimony. When you have one-minute remaining, a yellow light will reappear--appear.

At that time, I would ask you to wrap up your testimony, so we can be respectful of both the witnesses and the committee members' time. Mr. Frotman, you are now recognized for five minutes to present your oral testimony.

FROTMAN: Chairwoman Waters, Ranking Member McHenry, members of the committee, thank you for the opportunity to testify today.

Over the course of the last decade, I traveled all across this country talking to thousands of people in big cities, small towns and nearly every slice of America in between. And from these conversations, I have found that one aspect of life cuts across interweaving those communities with seemingly little else in common--the fallout from extraordinary ***student*** debt.

I've heard this in town halls across the Bible Belt, in state capitals coast-to-coast and in quiet corners amid hushed conversations. Sixty thousand consumer complaints tell the same story. Borrowers who did everything right--went to school, took on debt, got the degree.

Now they are desperately trying to pay it back, but are derailed at every turn. And at each story, a common question, "How could this happen to me after I did everything I was supposed to do?"

The answer is one we are often too unwilling to acknowledge. We encouraged millions of ***students*** to take on billions in debt. And then, to add insult to injury, we sent them into a market with a piecemeal consumer ***protection*** framework that buckled under the weight of this historic burden.

This is the story of our nation's ***student*** debt crisis. We must put aside the notion that simply because investment bankers are not lining the sidewalk of Seventh Avenue while holding the contents of their desks in boxes, that somehow this is not a crisis, that somehow our nation does not ***need*** to act.

Actions should not be triggered only when a market is deemed as systemically risky as sub-prime mortgage-backed securities. The call to action lies with the impact ***student*** debt is having on our neighbors and neighborhoods. It lies in the collective weight of $1.6 trillion.

Last year, more than one million borrowers defaulted on a ***student*** loan. That's more than the population of each of your districts. In fact, every 28 seconds, another borrower defaults. That's every 28 seconds of every hour, every day, every week, every year.

However, it's more than that. It's also the three million borrowers at least two payments behind. It's the impact ***student*** debt is having on everything from starting a family, to buying a home.

It's the way ***student*** debt is hurrying--hurting rural communities, driving income and equality, propelling the racial wealth gap.

Like kerosene on a fire, ***student*** debt is driving the systemic economic and racial inequality that is tearing our communities--our country apart. But it's more than ballooning balances. It is also the bullseye we have placed on the back of 44.7 million people.

The ***student*** debt crisis is a consumer ***protection*** crisis because too many for too long have allowed predatory players to have near free reign to prey on the struggle of ***student*** loan borrowers.

You should know the name--names of the companies that have targeted your constituents--Equitas, Bridgepoint, Citibank, Conduit, Corinthian Colleges, Discover Bank, Higher One, ITT National Collegiate ***Student*** Loan Trusts, Navient, FIA, Queen Street, Sallie Mae, SoFi, Transworld, Wells Fargo, and the list goes on.

Throughout America, big banks and small scams hurt millions of borrowers at every single point of their financial lives from a day her ***student*** receives her first bill until the day she pays off her last loan.

Regulators, law enforcement officials, scholars and consumer advocates have all documented how ***student*** loan borrowers have less rights and fewer ***protections*** that exist in other markets.

I'll say it again. The ***student*** debt crisis is a consumer ***protection*** crisis and that is where this committee comes in. From credit cards to debt collection, credit reporting to mortgage servicing, this is the committee that has taken a stand when consumers are getting ripped off. This committee's actions help consumers avoid billions of dollars in credit card fees, kept tens of thousands of families in their homes.

In all of these instances--and in so many others--this committee took decisive action on behalf of the American people. The 44 million Americans with ***student*** debt and the millions more who are affected by it ***need*** you to do the same. That is what this hearing and the legislation before you today is about--creating the ***protections*** and accountability that millions of Americans who receive a ***student*** loan bill deserve.

This is the unfinished work of financial reform, the unwritten chapter that 44 million Americans ***need*** Congress to write.

And so, I would just like to close with this. We cannot continue to be lobbied into believing that the companies getting rich off the misery of millions of Americans are not part of the problem. We cannot continue to ignore this trillion-dollar black hole in our financial markets.

As it has done time and again, this committee must protect those chasing the American deem--dream from those who only seek to prey on its pursuit. Millions of Americans across this country ***need*** you to act. Thank you.

WATERS: Thank you, Mr. Frotman. Ms. Yu, you're now recognized for five minutes to present your oral testimony.

YU:

Thank you. Chairwoman Waters, ranking member McHenry, and members of the committee, thank you for inviting me to testify today regarding how to protect ***student*** loan borrowers and hold ***student*** loan services accountable.

I offer my testimony here on behalf of the low-income clients of the National Consumer Law Center. Borrowers are struggling. As the director of NCLC ***Student*** Loan Borrower Systems Project, I see and hear the human toll of the tattered ***student*** loan safety net. Vulnerable ***students*** like our clients attempting to better their lives and better provide for their families through education face severe consequences if they default on their ***student*** loans.

Loan servicers play a critical role in ensuring ***student*** loan borrowers are aware of their options for repayment and can avoid default. Unfortunately, has--as has been extensively documented--the ***student*** loan servicing industry has been writhed with misconduct.

When servicers act abusively and deceptively, the harm can be long-term and irreparable. The devastating consequences are intensified by federal ***student*** loan borrowers because the government has collection powers that far exceed collection powers of most unsecured creditors.

The government can garnish a borrower's wages without a judgment, seize tax refunds such as the Earned Income Tax Credit and portions of federal benefits such as Social Security.

Racial disparities and default rates disproportionately expose borrowers of color to these government offsets and other damaging collection practices which systemically strip wealth from families in communities that are already economically disadvantaged.

The amount the government sees as using these tools is often far greater than the amount borrowers would be required to pay under an income driven or IDR plan. Borrowers that might otherwise qualify to have a zero-dollar payment and IDR could have hundreds of dollars seized from their wages or thousands taken from vital tax credits.

IDR is critical for keeping federal loans affordable, but remains inaccessible for too many borrowers. Many borrowers never learn about IDR and are steered into forbearances or deferments.

At NCLC, most of our clients were in a series of forbearances and deferments prior to defaulting on their loans.

Even borrowers who do learn about IDR have trouble staying enrolled in the program with more than half of borrowers failing to recertify on time. Critically, service for misconduct is not limited to income driven repayment. Borrowers struggle to access vital loan cancellation programs because borrowers--because servicers fail to provide them with critical information or improperly deny their applications.

Unlike other credit products, there are a few laws specifically governing ***student*** loan service or conduct for either federal or private loans. These last of--lack of ***protections*** have exacerbated the now well-documented problems borrowers face accessing public service loan forgiveness.

One common problem borrowers are experiencing is errors in counting their qualifying payments. Unfortunately, borrowers do not have easy access to basic payment histories that could help correct these errors.

NCLC has been working with one such client since February just to get her full payment history and determine how many client payments she has made on her loans. There are some ***protections*** of the contracts at the Department of Science with its servicers. However, borrowers rarely know about these rights or have any way to enforce them.

Those who are able to find a lawyer to assist them still face an uphill battle because the Higher Education Act provides no explicit private right of action. Borrowers can raise state law claims including those based on fraud misrepresentation.

But contrary to much of the state law, the servicers in the Department of Education claim that those claims are preempted by the Higher Education Act.

Fairness and justice require that servicers have the ability to enforce their rights when they've been breached by servicers. Problems are even greater in the private loan market without comprehensive federal laws requiring private ***student*** lenders to offer flexible repayment options, borrowers are at the mercy of their creditors.

A few lenders claim to offer disability cancellation programs. But in our experience, those programs can be hard to access and critically there are no standards for these programs for private loans.

Importantly, even where private ***student*** loan borrowers do have rights under state law, they are prevented from raising those claims in open court because of forced arbitration clauses. These clauses deprive people of their day in court when a company violates the law and forces victims into a system that is often biased, secretive and lawless.

In conclusion, the problems facing individual borrowers are often symptoms of systemic problems to which systemic responses are required. These problems threaten the financial security of some of the most vulnerable ***student*** loan borrowers and keep them from fully participating in the economy.

Accountability is critical to ensuring that borrowers receive quality servicing. Borrowers ***need*** real rights in consumer ***protections*** and they ***need*** the legal tools to enforce those ***protections***.

Thank you for the close attention you are paying to the ***student*** loan servicing market and for the bills that you are considering today. I appreciate your opportunity to provide this testimony and I look forward to your questions.

WATERS: Thank you, Ms. Yu.

Ms. Harrington, you are now recognized for five minutes to present your oral testimony.

HARRINGTON: Good morning, Chairwoman Waters, Ranking Member McHenry, and members of the committee. Thank you for the opportunity to testify today about the nation's ***student*** debt crisis.

With more than 44 million borrowers carrying almost $1.6 trillion in outstanding ***student*** loan debt, Congress has the responsibility to do its part to solve this crisis.

Just a decade ago, we all watched the devastating ripple effect of the 2008 financial crisis. People lost their homes, pensions and savings accounts were wiped out. A generation of family wealth was gone--was gone almost overnight. And college graduates--many with a mountain of ***student*** loan debt--were entering a bleak job market.

A key lesson from the Great Recession is that skillful loan servicing could have dramatically mitigated the impact of foreclosures, and their spiraling spillover effect on neighborhoods, and the economy. Despite this relatively recent lesson, the principles we learned seem to have already been forgotten as we face the current ***student*** debt crisis.

Student loan servicers have consistently failed to fulfill their obligations and have engaged in a variety of abusive practices that have long-term negative consequences for borrowers. While servicing reform is not the sole answer to the ***student*** debt crisis, servicing failures contribute substantially to the growing ***student*** debt burden and the creation of undo harm to millions of borrowers.

Today, two in five borrowers are in default or seriously delinquent and many borrowers are not reducing their principle even after almost a decade of repayment.

Twenty-seven percent of borrowers who entered undergraduate higher education in 2003-2004 had defaulted on their ***student*** loans by 2016. Up to 40 percent of this cohort are projected to default by 2024.

When we spend $700 million on collection activities and more than $800 million on loan servicing activities annually, Congress can and should require more from these contractors.

We should also have concern that the ***student*** debt crisis--already a byproduct of the racial wealth gap--is also further entrenching these inequities, and perpetuating the cycle of poverty, and economic instability that results in systemic lack of access to resources, capital and affordable credit.

Rather than creating a pathway to opportunity, ***student*** borrowers of color are more likely to default and take longer to pay back their loans. For instance, for black ***students*** who enter undergraduate higher education in 2003-2004, almost 49 percent had defaulted by 2016. Up to 70 percent of this cohort is projected to default by 2024.

Nearly half of black graduates with a bachelor's degree owe more on their undergraduate ***student*** loan after four years than they did at graduation compared to 17 percent of white graduates.

Student loan servicers have been notorious for putting borrowers in deferment or forbearance. These practices have led to billions of dollars in extra interest and fees being added to the principle balances of already indebted borrowers.

They have also prevented borrowers from accessing affordable repayment plans that will allow them to take part in other wealth-building activities. Servicers should enroll struggling ***students*** in income driven repayment plans, not forbearance.

While reforms are definitely ***needed***, IDR plans are an essential tool for preventing delinquency and default. Despite these documented failures, the current Department of Education has revoked existing policies meant to protect ***student*** loan borrowers. It has acted to the benefit of private companies over ***students*** and taxpayers. And it has attempted to prevent federal and state enforcement of consumer ***protections***.

States have--that have passed reforms total nearly 30 percent of the 1.5 trillion in outstanding ***student*** loan debt. States have historically played a critical role in protecting consumers from abusive and predatory practices from mortgage servicing to payday lenders.

Student loan servicing is no different. Since 2015, 11 states in D.C. have passed laws to oversee ***student*** loan services. This is combined with multiple state enforcement actions against servicers like Navient and FIA. Their approach to addressing this crisis will shape the lives of millions of borrowers and the health of our economy for decades to come. Federal efforts must compliment these state level actions, not preempt them.

Many of us can attest in this room that good servicing makes a real difference in borrower outcomes. This is especially true for ***student*** loan servicing where there are already many options to help ***students*** avoid default and be successful in repayment.

By failing to hold services accountable to basic consumer ***protection*** laws and responsibilities, we increase the likelihood of more defaults in that this crisis will worsen. Rather than repeat mistakes from the mortgage crisis, we should learn from that experience and work to achieve a sounder, more effective ***student*** loan system.

Congress must ensure that federal dollars are truly an investment, not just a payout. Our nation's future depends on it. Thank you.

WATERS: Thank you, Ms. Harrington. Mr. Minhaj, you are now recognized for five minutes to present your testimony.

MINHAJ: Thank you so much. I want to thank Chairwoman Maxine Waters for the opportunity to testify and I would like to thank Ranking Member Patrick McHenry for taking the time to Google who I am.

MCHENRY: Cute. Very cute.

MINHAJ: My name is Hassan Minhaj. I'm a Muslim and I condemn radical Islamic terrorism. That has nothing to do with anything. I just want that on the record.

(LAUGHTER)

It's good to get ahead of these things.

(LAUGHTER)

Chairwoman Waters invited me here today because I host a political comedy show on Netflix called "Patriot Act" which means I may owe some of you guys royalties. DM, we can talk later.

Now we recently did an episode on the ***student*** loan crisis and it really hit home with our audience because 44 million Americans owe more than $1.6 trillion of ***student*** loan debt. In fact, the day we shot our episode, we polled our ***student*** audience. It was only about 200 people--in that room alone had over $6 million of ***student*** loan debt.

Now granted, our audience is mainly unemployed poli-sci majors.

(LAUGHTER)

But that's still a lot of money.

Now this issue is sidelining millions of Americans. People are putting off marriage, kids, home ownership and retirement--especially my generation. So, I'm 33 and growing up it was drilled into our heads, "You've got to go to college if you want a middle-class job." And we even tell kids today, "Look, if you ***don't*** go to college, you might as well get a face tattoo." And then, they point to Post Malone and we're like, "Okay. That's one guy." He's a very popular musician.

(LAUGHTER)

But it's true--2/3 of all jobs in America require at least some college. This is the standard now and that wasn't the case when most members of this committee were in school. And you paid far less for your degrees.

That's not speculation. We looked up where the 60 members of this committee went to college and what your school's tuition was at that time. Even adjusting for inflation, college cost way less across the board.

So, Chairwoman Maxine Waters, your tuition at Cal State LA in 1971 was the equivalent of about $1,000 a year. Today--

(LAUGHTER)

--Cal State costs well over six grand. That's more than a 500 percent jump.

Congressman King, right?

In 1965, Congressman King paid the equivalent of almost $10 grand a year at St. Francis College. Today, St. Francis costs over $25 grand.

On average, this entire committee graduated from college 33 years ago and paid an inflation adjusted tuition of $11,690 a year. Today, the average tuition at all of your same schools is almost $25,000. That's a 110 percent increase over a period of time when wages have gone up only 16 percent.

So, people aren't making more money and college is objectively way more expensive. You see what's happened?

We've put up a pay wall to the middle class. And if there's one thing Americans ***don't*** deserve more of, its pay walls. That's why we put up our entire show for free on YouTube. It's also because you can't really find anything on Netflix.

(LAUGHTER)

It's like the lost and found bin of entertainment. You're like, "Great! Another show about people who love cake."

(LAUGHTER)

Now despite these numbers, you often hear the idea, "These kids wouldn't be in trouble if they just took some responsibility." But they're trying to be responsible. They're investing in education and they are trying to pay their loans back.

And yet, many borrowers are still treated like deadbeats because the government has put their financial futures in the hands of predatory for-profit loan servicing companies. Companies like Navient and other companies you will hear from today have a history of misleading borrowers and pushing them into repayment plans that in some cases have cost individual borrowers tens of thousands of dollars in unnecessary interest.

And the worst part is borrowers ***don't*** even get to choose their loan servicer. The Department of Education chooses for you. So, there's no competition that makes these companies provide better service.

Now look, we know the deck is stacked against ***student*** borrowers in ways that it wasn't 10 or even 15 years ago and they deserve some basic ***protections***. Americans should not have to go bankrupt pursuing higher education and they should never be preyed upon by unregulated loan servicing companies.

So, members of this committee, we know the government is capable of stepping in during a financial crisis. So, really all I'm asking today is why can't we treat our ***student*** borrowers the way we treat our banks?

Because 44 million Americans, that is too big to fail. Thank you so much for your time and I will now go back to where I came from.

(LAUGHTER)

WATERS: Thank you, Mr. Minhaj. Mr. Delisle you are now recognized for five minutes to present your oral testimony.

DELISLE: Chairman Waters, Ranking Member McHenry and members of the committee, thank you for the opportunity to testify today. My testimony represents my own views and not those of AI which does not take any institutional positions.

So, we've heard a lot today that there's a problem with the Federal ***Student*** Loan Program. Private companies--servicers--that the Department of Education has hired to run this government program are cheating borrowers out of benefits, confusing them, giving them subpar advice, leading them to incur additional costs.

But this common narrative we've heard today seems to assume the problem is entirely due to factors that are under the servicers control. But I want to remind the committee--given that the ***student*** loan program is not under the committee's jurisdiction--that all of the terms of the Federal ***Student*** Loan Program are set by Congress or the Department of Education and servicers ***don't*** own these loans.

They also ***don't*** get paid more if borrowers owe more. So, what this means is that all of the perceived mistreatment that we're talking about today--the crushing debt, the misleading information, the confusion--the source of that may actually be Congress and the Department of Education, not the servicers.

Now servicers can make mistakes absolutely. I'm not denying that. They can get things wrong. They can be sloppy. But I want to give you some examples of what I'm talking about where the terms of the program actually sew confusion and resentment among borrowers.

The Consumer Financial ***Protection*** Bureau operates a complaint database. Borrowers can lodge complaints against their federal ***student*** loan servicers. I'm going to read you one. It reads as followers. "I have repeatedly requested that all overpayments get applied directly to principal, but my loan servicer (INAUDIBLE) continually advances the due date, then they tell me I ***don't*** know how payments work. I then have to educate a willfully ignorant rep on how compound interest works and advancing my due date is not in my best interest."

So, I agree this looks strange. I make a larger payment on my loan and my due date goes out into the future. So, where did this come from?

Well, it came from the Department of Education. This is a policy. This is a policy the loan servicer is required to advance the due date if a borrower makes an overpayment. What a strange policy. (INAUDIBLE) borrowers extra flexibility in when they ***needed*** to make their next payment if they made an overpayment.

So, this is not necessarily an example of a servicer mistreating the borrower. That's what the borrower--that's what it looks like to the borrower. In fact, that's how many of the people on this panel describe the situation. I ***don't*** think it's quite accurate.

Let me give you another example. Borrowers often complain that their servicer has mislead them. You've heard that today. It's given them--and they're caught off guard by some term of their loan.

I want to show you the Department of Education's application form for the income-based repayment program. I can't quite get it to fully extend to the floor. These are the terms of the income-based repayment program. Runs some 10 pages.

You'll see on page 7 and 8 there's a 60-cell matrix comparing all the terms. Is it fair to expect borrowers to understand all of that information?

No.

Is it fair to expect servicers to explain all that to the borrowers and make sure they understand it?

I ***don't*** think so.

Why do we have a 10-page form listing all the terms?

Because Congress and the Department of Education--egged on by many of the advocates--required all of these terms. So, borrowers are utterly confused, but they're blaming servicers when it's really the terms of the program.

Now I have many more examples of this in my written testimony. There deals are just two--there are many. But I want to conclude today by telling you what I think Congress can do to solve this problem. I think we ***need*** a much more straightforward ***student*** loan program.

Now this is not going to be easy. It's going to require tradeoffs, probably going to require fewer benefits, fewer options. These are the things that are confusing borrowers or we could simply provide the most generous benefits to everybody all the time. That's going to cost a lot of money and probably isn't the best use of scarce resources.

But here's what I want to say that is really important. These tradeoffs exist and excellent ***student*** loan servicing's not going to make them go away. Blaming ***student*** loan servicers for the tune--terms of the loan program, not going to make these tradeoffs go away.

Congress is going to have to make them. It's up to lawmakers to ensure that borrowers are not mislead or mistreated by the Federal ***Student*** Loan Program. Thank you.

WATERS: Thank you very much. I will now recognize myself for questions. And I'm going to address my question to Mr. Frotman. In March, you testified before this committee that the lack of action on behalf of ***student*** borrowers by the Consumer Bureau "reflects a fundamental lack of seriousness in the work that Congress tasks the Bureau to perform and willful negligence in addressing the deep systemic problems that plague borrowers owing the second largest class of consumer debt in this nation."

Instead of vigorously enforcing the law to protect ***student*** borrowers, it appears the only notable thing that the Trump Administration has done is install a high ranking official from one of the nation's largest ***student*** loan services to be your successor at the CFPB.

So, this committee and others are examining the activities the CFPB, Department of Education and ***Student*** Loan Services. And today's hearing appears to be--based on records my staff reviewed going back to 1995--the first full committee hearing held by Financial Services on the topic of ***student*** lending.

Mr. Frotman, given how ***student*** debt can affect the borrower's life--including their ability to get a home or start a new business in the broader economy--is the Consumer Bureau going--doing--doing enough to help ***student*** borrowers or is the Bureau coming up short and failing in its job? Are there particular areas that the Consumer Bureau and the Department of Education should be prioritizing when it comes to enforcement?

FROTMAN: Thank you so much for the question, chairwoman. So, ***student*** debt crisis is a big problem impacting all of your constituents. The ***student*** debt crisis knows no party, knows no ideology, knows no administration. And what we have seen is that historic amount of debt is hurting all of your constituents from their ability to buy a house, start a small business.

We see how ***student*** debt is driving folks out of rural counties and we are--we usually talk about this in the form of ballooning balances, but it's more than that. It's a bulls eye placed on the back of nearly 45 million Americans who are subjected to--to predatory tactics from the day they take out their loan until the day they pay it back.

And what we have seen is that ***student*** loan borrowers have rest--less rights and fewer ***protections*** than nearly any other type of borrower. You have more ***protections*** if you're paying back your credit card or your mortgage.

So, while I was at the Consumer Financial ***Protection*** Bureau, this is an issue we worked on a lot which was there are big banks, federal ***student*** loan servicers, you name it up and down the line who are viewing the ***student*** debt crisis as their chance to get rich. And I'm proud of the work we've done. We were able to get back $750 million for ***student*** loan borrowers. And we work with anyone and everyone.

And it, you know, sometimes we worked with the Obama administration. Sometimes we didn't make them that happy, but that was the job.

And what you see now at the Consumer Financial ***Protection*** Bureau is just walking away from that mission--walking away from the job to stand up for your constituents who the only thing they've done wrong is taking on debt to chase the American dream.

And I think that's why this hearing and this legislation is so important because the CFPB is one piece of the puzzle. Borrowers ***need*** the same rights and ***protections*** they would have if they were paying back a credit card and a mortgage. They ***need*** to be able to enforce those themselves. They ***need*** their states to be able to enforce them because they're really struggling.

WATERS: Thank you very much. I wanted to get into a little bit about the disparities for minority ***student*** borrowers. And I'll just get to Ms. Harrington, in the short time that I have left on this question.

The Center for Responsible Lending published its own report early this year on borrowers of color and the ***student*** debt crisis. In trying to help ***student*** borrowers of color, your recommendation is that we reprove repayment--improve repayment options, provide debt relief, strengthen servicing standards and prevent abuses by for-profit institutions. Do you think the bills we're considering today including the ***Student*** Borrower Bill of Rights would successfully help ***student*** borrowers of color?

HARRINGTON: Absolutely, congresswoman. These bills go a long way in the right direction in insuring that consumer ***protections*** are available to ***student*** loan borrowers and that's particularly important for ***student*** borrowers of color who disproportionately take out ***student*** debt and take out higher levels of ***student*** debt than higher populations.

They have to go to college and they have to have loans to go to college due to the system--systemic inequities that we have seen since the founding of this country. So, any extra work that can be done by this Congress to improve that system for everyone--but especially borrowers of color--is--is essential.

WATERS: Thank you very much. And now I will recognize the gentleman from North Carolina, Ranking Member Mr. McHenry. You're recognized for five minutes.

MCHENRY: Well, I thank you. And look, I do think there's a commonality among the--the full--full panel here across perspective.

The question of affordability of the institution is an important question. It is. I think we all agree on that.

Now how we resolve that becomes a bit of a challenge, but that's the nature of where we are in our society.

Mr. Minhaj, out--as you outlined in your show, the question of cost is a fundamental issue too and you address that. And you also address the servicers. So, you go from the--the question of the debt, but the key question as well is--and you get to this in some ways, but underwriting. There is no underwriting for a loan. There is no question of a ***student*** being informed enough about the decision they're making that is a life changing decision.

And we have the federal government creating a mechanism and then using private sector folks to then service their decision, right? So, you--you ***don't*** see underwriting, but you get at it, right?

That these ***students*** are given way too many choices for their financial literacy basically and ***don't*** have an understanding of what that will mean to their life for a decade, two decades, three decades. And that decision they make as a 17, or 18, or 19-year-old and the impact it's going to have on their ability to buy a house, or a car, or have children, or get married and its societal impact on that.

So, you do a great job of highlighting that I have to say. And--

MINHAJ: You're a fan of the show?

MCHENRY: I ***don't*** want to do that to you because it's probably not helpful.

MINHAJ: I'll get you that--I'll get you that t-shirt.

MCHENRY: I'll watch you right after I finish watching the Chappelle special, so we'll move from there.

Mr. Delisle, as you outline to the question of affordability is--is a question--is--is a fundamental question too. The form you outline that you show there is massive.

One example I would give you is until the CFPB attempted to rewrite out ***student*** serve--debt servicers interact with their clients, servicers could not text the people they're trying to interact with.

You ask the average 25-year-old if they answer their phone? Not a chance, right?

So, texting is a very reasonable and responsible thing. They can't do it because the rules by which they're servicing the debt do not permit them to. And the regulations out of the CFPB have not been modernized, so that they can do that. So, one simple change like that could make a major impact on the ability to service it.

Mr. Delisle, let's talk about underwriting. What underwriting has done before this debt is given to ***students***?

DELISLE: Basically none. It's almost a no questions asked loan. It's an entitlement. There's no income check, no means testing. It's basically open-ended.

MCHENRY: And does that mean there's no ramifications if they ***don't*** pay?

DELISLE: Well, there is a ramification if they ***don't*** pay. They generally will have--they'll accrue additional interest. They could have their tax refund seized. Most of the time the government is able to get the money back.

MCHENRY: How clear is it? How clearly is that outlined in the contract these ***students***--

DELISLE: That's listed in the master promissory note which is about as long as this other form that I showed you.

MCHENRY: And so, there's no clear box like on a mortgage that gives you the key ingredients of what you're about to sign for?

DELISLE: Not really, no. I mean, the inference--the terms of the loan are listed there. But because of the sort of strange nature of ***student*** loans doesn't--doesn't look like or walk like other loans.

So, for example, the interest rate that you are going to borrow at not listed on your master promissory note. Well, that's because we ***don't*** actually know the interest rates that you're going to borrow at going forward because the interest rate is different each year you borrow because you take out a new loan every year.

So, the sort of trying to make these things work and look like traditional financial products doesn't really work that well because we're trying to serve a sort of different market.

MCHENRY: So, how do you reform the program to mitigate those risks?

DELISLE: Well, I--I think--I think--I ***don't*** think there is a huge sort of affordability crisis in--in ***student*** debt contrary to what every--everyone has said here, you know. I--I think there's a--a lot of available resources--

MCHENRY: What do you mean by that?

DELISLE: Well, I--I ***don't*** see sort of widespread inability of people to pay their ***student*** loans. I hear a lot of complaining about it and, you know. But in terms of our people actually financially unable to pay the loan, I ***don't*** think that's as widespread as a lot of people believe, so.

MCHENRY: But you admit there's a broader societal impact for this level of debt they're coming out of college with?

DELISLE: Yeah. I'm sure there is. But also, the, you know, it's financing an asset. It's financing a higher education. So, all the concern about ***student*** debt--if ***student*** debt is harming people, it means higher education is harming people. That's what it paid for.

WATERS: Thank you. The gentlewoman from New York, Ms. Maloney was also the chair of the Subcommittee on Investor ***Protection***, Entrepreneurship and Capital Markets is recognized for five minutes.

MALONEY: Thank--thank you, Madame Chair, and thank all the panelists. The--the price of college education increased eight times faster than wages between 1989 and 2016. College tuition costs more than many people earn a year. And while we must address the underlying cost of college, ***student*** loans have become so unset--unsustainable that millions of people are now putting off buying homes, starting families, or even starting their careers.

That's why I support full loan forgiveness and am a co-sponsor of Senator Bernie Sanders House Companion Bill HR. 3448 The ***Student*** Debt Cancellation Act. These solutions might fall out of the jurisdiction of our committee. We do have oversight on ***student*** loan servicers.

Student loan servicers ***don't*** own loans, set rates, or control the costs of college. Yet they are a critical point of contact for borrowers repaying direct loans and they are responsible for engaging with the borrowers experiencing difficulties making these payments.

We recently held a hearing on ***student*** loan servicers and one of the troubling things we heard was that some schools engage consultants to push forbearance to keep their default rates down even when other options are better for the borrower. That's because schools have--would lose access to federal aid if their default--default rate is too high. And I'd like to know and I'd like to ask Persis Yu how often does this manipulative practice push borrowers into forbearance when it might not be in their best interest? Shouldn't the best interest of the borrower be the only factor that is considered, not artificially inflating numbers? And what role do the services--servicers play here?

YU: Thank you, congresswoman. In the experience of the borrowers that I work with, many of them have attended predatory schools that have made big promises about the career goals that they will get and the big salaries that they'll get. And those promises fall through.

Unfortunately, many of those companies also--although those schools also engage with default management companies that push borrowers into deferments and forbearances, and we see the fallout of that. Borrowers come to my office. They are in default. They have a series of these forbearances. They've never heard about incomes and repayment.

Many of these borrowers would have qualified for zero-dollar income driven repayments. But instead they defaulted because they exhausted their forbearances through these default management companies and now are in default. Services have the role of informing borrowers of income driven repayment. Servicers are required to reach out to borrowers and for too many borrowers that's not happening.

And that is why we are here today and we are encouraged by the bills that are being offered by this committee.

MALONEY: Also, the Department of Education recently withdrew a set of ***student*** loan servicing standards. And many states have sense passed their own strong standards and procedures including restricting forbearance steering and creating compliant departments. Wouldn't everyone--especially borrowers--benefit from a common set of minimum industry best standards that the draft ***Student*** Loan Servicing Reform and Consumer ***Protection*** Act calls for?

Again, Ms. Yu?

YU:

Absolutely. Thank you for this question. There--there's a desperate ***need*** for basic consumer ***protections*** for ***student*** loan borrowers. Borrowers do not have basic rights to de--dispute resolution solutions, to timelines for processing payments, for ensuring that borrowers are getting the best options presented to them.

The bills that are presented--especially the Borrower Bill of Rights which would present basic consumer ***protections***--are vitally ***needed*** by the borrowers I work with.

MALONEY: And in cases of forbearance, in many cases it just adds to the cost and is not in the best interest of the borrower. Would you like to elaborate on that, Ms. Yu?

YU:

Absolutely.

MALONEY: Yeah.

YU:

There are some very limited circumstances where--where forbearances can be useful. However, for the most part, they add to the cost of the loan. The interest rate is capitalized meaning the principal balance grows and then interest is charged upon interest. Importantly, that time is not applied towards forgiveness like it would be an income driven repayment plan. Therefore, borrowers are both--their loans become more expensive and it extends the life of those loans.

MALONEY: Thank you. My time has expired.

YU:

Yeah.

MALONEY: Thank you.

CASTEN: The gentlewoman from Missouri, Ms. Wagner, is recognized for five minutes.

WAGNER: I thank the chair.

CASTEN: Yeah.

WAGNER: Let's be clear here. The federal government is responsible for almost $1.5 trillion of the overall $1.6 trillion in ***student*** loan debt--around 92 percent of all debt. It's my understanding that only just over $100 billion of this debt is in private loans which have a 98 percent repayment rate.

Meanwhile, stats from the Federal Reserve Bank of New York suggest federal borrowers are not fairing well as more than 20 percent of all borrowers are seriously de--delinquent or in default. And a large number of federal borrowers are seeing their loan balances grow, not decrease post-graduation.

Mr. Delisle, given this bleak outlook for federal borrowers, shouldn't more be done to protect consumers from assuming more federal ***student*** loan assistance than they can reasonably pay back?

DELISLE: Yeah. I think the place to look for a solution like that most obviously is in graduate school lending. The--for undergraduates in the Federal ***Student*** Loan Program, there's a limit. Congress sets a limit on how much people can borrow recognizing the kinds of things that you were talking about. A dependent undergraduate can only borrow $5,500 for their first year of school.

When it comes to graduate school, Congress had the infinite wisdom to decide to lend unlimited sums to people to go to graduate school and this is where the big problems are.

WAGNER: Well, let's explore that for a minute, Mr. Delisle. Does the federal government evaluate a borrower's ability to repay a loan before issuing a loan?

DELISLE: No.

WAGNER: A ***student*** who receives a ***needs***-based Pell grant could also have their parent take out a $100,000 parent plus loan even though they've demonstrated that they ***don't*** have the means to repay, is that correct?

DELISLE: That's right. In fact, the federal government will assess your ability to repay using a--a--the financial aid application, determine expected family contribution for your child's education. And even if that number is zero, the federal government has determined you can contribute zero towards your ***student***'s education.

WAGNER: Stunning.

DELISLE: Then they will lend you an unlimited amount--

WAGNER: Stunning.

DELISLE: --for your child's education.

WAGNER: It seems some federal borrowers are setup for failure from the start by the rules put in place by Congress. What recommendations briefly would you make to Congress to prevent ***students*** and their parents from over borrowing?

DELISLE: Well, I think they probably should restore some sensible limits to the amount that graduate ***students*** can borrow. And I think there's really no good public policy purpose for--by having the Parent Plus loan that we were talking about.

WAGNER: Uh-huh. The federal government took over the vast majority of ***student*** lending from private lenders in March 2010 as we've discussed. How does the design of these Department of Education contracts impact the ability of federal loan servicers to provide individualized service to borrowers?

DELISLE: Well, I mean, they have to carry out the terms that are--are set in law. So, it can't be that individualized because they have to provide the borrowers the terms that they're entitled to. But they have some--because of all the different options and different situations that a borrower could find themselves in, people on the left and the right have decided that it's better that servicers have some discretion in how they counsel borrowers.

So, there's some flexibility for servicers to make decisions. I actually think one of the sort of unintended consequences here of some of these debates and I look at some of the legislation that was posted today for the hearing. And there's a--there's a tendency to want to be more prescriptive of--of--of how servicers operate. And I just am a--a little bit concerned about that because I'm not sure I would supplant a lawmaker's judgment for servicers judgment in the best way to handle each ***student***'s individual situation.

WAGNER: Private ***student*** lenders make at least 18 disclosures on three separate occasions before a loan is made providing much clearer information than is provided for federal direct loans. Would disclosures for federal loans like those private ***student*** loan borrowers make lead to better outcomes for ***student*** loan repayment perhaps?

DELISLE: I--I--I ***don't*** really think this is an information problem. I held up the form that--today, the 10-page form with the 60-cell matrix and people still complain. There are thousands of complaints in the CFPV database about people saying they ***don't*** like the form.

WAGNER: But would it help--let me say this. Would it help to have disclosures of accumulating debt made during the course of study rather than just when a ***student*** first enrolls and graduates?

DELISLE: Yeah. It--it--it may. I mean, the reason why, you know, typically the government and Congress has shied away from doing exactly that is they're worried it would scare people from continuing to borrow and finish their education. So, I, you know, I ***don't*** know what the right--right direction is on that.

WAGNER: My time is expired. I yield back.

CASTEN: The gentleman from Georgia, Mr. Scott, is recognized for five minutes.

SCOTT: Thank you very much, Mr. Chairman. It seems to me that we have a profound question here of why. Why in an article that the very distinguished publication, Forbes mentioned last year--it noted that the price of a four-year college education has nearly doubled since the 1980's they said.

Though the average annual growth rate in wages and salaries over that same period increase only 3 percent. This means that the cost of this four-year college education has increased eight times as rapidly as people working on their jobs earning wages and salaries. That to me is where we ***need*** to really pull the covers off and ask why? Why did this cost of a college education explode over this period at a rate eight times greater if we're going to really get to the answers of how we solve this.

And further, as a matter of fact--excuse me. The cost of a four-year college education in a more narrow window--between 2003-2017--the cost of a four-year college education rose nearly 50 percent--48 percent. But between this same smaller window--15-year period--wages and salaries rose only 6 percent. This means that the cost of a four-year college education has increased nine times as fast as salaries.

So, ladies and gentlemen, why? What has caused this? I think if you all could tell us each quickly--if you could put your hand on one thing--so that we would know what to zero in because we can put legislation out forever. And no one hand made "Let's give free education" because nothing is free.

But the issue here is what is causing this abnormal? Cut teachers' salaries, professors' salaries? What has happened? Can--can we go right quickly and let's try to get on the record why? If you all could put your fingers on just one thing, maybe you can give us five things that we can address. Mr. Frotman?

FROTMAN: So, I think in many ways the answer is those five things. But there is one thing that this committee can do to tackle--

SCOTT: Yeah.

FROTMAN: --it which is stop the predatory players that add zeros to individual borrowers bills.

In the lawsuits against a company--Navient--in--in courthouses coast-to-coast they documented how this company's practices added $4 billion a year.

SCOTT: Okay, predatory lending. Great point. We can hit that.

Now Ms. Yu?

YU:

So, I ***don't*** have the one answer. But for the borrowers that we work with, certainly the fact that the Pell grant has not kept up has been hurting the borrowers that we see and has made it, so that our borrowers have to take out loans in order to go to school--that it is not a choice for them to take out a loan. They are forced to take out the loans if they want an education which they ***need***--

SCOTT: Right.

YU:

--and which is why, again we ***need*** these vital consumer ***protections*** forced to take out the loan.

All right, Ms. Harrington?

HARRINGTON: So, I think overall, we ***need*** to reframe education as an investment in our future and that looks like many things--all the things that my colleagues have said. But also, accountability for for-profit colleges, federal state--federal state partnerships that really invest in equitable higher education and a--and an ability for ***students*** across--***students*** across backgrounds to really access higher education in an affordable way.

SCOTT: Okay.

HARRINGTON: And affordability at the front end and the back end.

SCOTT: All right. Mr. Minhaj? Yes?

MINHAJ: Yes. One of the things we covered on the show is the fact that when a ***student*** borrower calls their loan servicer, let's say Navient. Navient will rush you off the phone oftentimes in seven minutes or less. And they will advise you to go into loan forbearance instead of an income-based repayment plan which would probably be better for you.

So, that simple misinformation is a problem and I think ***student*** borrowers ***need*** just basic Bill of Rights like a ***protection*** to--to not let that perpetuate.

SCOTT: All right, thank you.

DELISLE: I get--

SCOTT: Yes, Mr. Delisle?

DELISLE: I get the sense though you would complain if Navient kept them on the phone.

MINHAJ: No, you wouldn't even tolerate that from United Airlines.

DELISLE: If they added all of these terms to them to make sure exactly what they were getting into, I guess people would be very upset about that too.

MINHAJ: But they--they want their best option, not a CVS receipt.

SCOTT: All right. Thank you, Mr. Chairman. Very helpful. I think that's very informative. Thank you.

CASTEN: Gentleman from Florida, Mr. Posey, is recognized for five minutes.

POSEY: Thank you, Mr. Chairman. I'm--I'm wondering why there have been no oversight hearings in the Education and Labor Committee on the role of the U.S. Department of Education and managing it slow in servicing agents. And I just wonder if the panelists--beginning on the far right--would give me their comments on that?

DELISLE: Am I on the far right? Am I on the far right?

POSEY: Yeah. You're--you're--you're far right.

(LAUGHTER)

DELISLE: I--I mean, I think that the--I think the sort of nature of my testimony is actually probably why the--the--the committee--the Education Committee would have a hard time really going after loan servicers and blaming them for the problem because so many of the things that are frustrating borrowers are actually terms that that committee put into the loan program themselves.

So, I think that--that's one of the reasons why the--the loan servicing issue just isn't--they sort of recognize it for what it is which is not the major problem here.

POSEY: Thank you.

MINHAJ: What was the question again? What's the major problem?

POSEY: Yeah. What--what are your thoughts on--on the role of the U.S. Department of Education in managing its loans?

MINHAJ: Just the fact that they outsourced it to private loan servicers?

POSEY: Your general thoughts.

MINHAJ: I mean, my general thoughts is this. Are you familiar with the rapper Lil Uzi Vert?

POSEY: No.

MINHAJ: I think it's a huge problem that the youth of America have to bombard their favorite rapper/pop musician and ask them to pay back their ***student*** loans. They're not even asking for selfies anymore.

Are you a fan of Taylor Swift?

POSEY: I--well, yes.

MINHAJ: Because even her fans have gone up to her and said, "Will you please pay back my ***student*** loans?" That's how desperate ***student*** borrowers are.

POSEY: All right, next.

HARRINGTON: So, I think there's absolutely a role for the Department of Education in this. But there's also a role for the consumer agency that we have which is the FPB. ***Student*** loan borrowers or consumers and they are taxpayers and they should be--and they should be protected by the CFPB. And the CFPB should be required and have mechanisms to do so.

I think there has--and I think there has been a lot of discussion about what the department can do. Particularly they can have better oversight and accountability for the bad actors in the system and that servicers would also for-profit colleges.

There's a few mechanisms that the department--current department has actually rolled back that would've held these groups accountable--the Borrower Defense Repayment Rule, the Gainful Employment Rule which have gotten bad actors out of the system and lowered defaults because defaults are actually directly correlated to the for-profit college growth and decrease.

So, we ***need*** to look at the people--at the actors that are actually responsible for some of the real--for some of the burdens in the system.

YU:

Thank you. Well, I agree with my colleague. We absolutely ***need*** the Department of Education to do a better job at protecting ***student*** loan borrowers. But as Ms. Harrington said, the current administration has been shielding services from liability and rolling back consumer ***protections*** at every opportunity.

The Department of Education--oversight by the Department of Education is necessary, but not sufficient to solve the ***student*** loan crisis. These are private companies who are working with borrowers on the second largest credit market. We ***need*** strong consumer ***protection*** to protect all ***student*** loan borrowers from the private companies that are profiting off of their ***student*** loan debt.

FROTMAN: And so, I agree with all my colleagues. There's a critical role for the department--oversight of the department. But we should remember that under--the FSA has called themselves the largest special purpose consumer bank in the world. And this is the committee that deals with banks and regulation of financial service companies.

And this isn't just a higher education policy issue. This is a consumer finance and a consumer financial ***protection*** issue. And borrowers ***need*** your help when they're ripped off when they're trying to pay back their debt.

POSEY: Okay. I--I saw where they--the--the collections on the private is much greater than the public. And I'm just concerned now. We can go back through again on the role of the borrowers in creating the problem.

DELISLE: Well, you know, I'm not--I'm not sure that the borrowers are really creating a--a--a problem here. I mean, I think that, you know, what I see is borrowers frustrated with the--the terms of the loan program. And--and so, I think that really what borrowers are saying is they want something simpler, you know.

We talked about--a little bit about people saying, "Oh, well they're steering people to the wrong option." Well, how do you know what the wrong option is? I mean, that could mean--a lot of people would disagree on what the right situation is. There's so many options. There's so many different situations. It's almost impossible to tell.

So, I--I ***don't*** really think that the borrowers are--are really to blame here. I think it's this sort of really crazy program that--that we're putting them into.

POSEY: Okay. And--and so, the correct way to address that problem you think best would be?

DELISLE: Well, so, you know, for example, you know, one of the--one of the things you could do is stop, you know. So, one of the repayment plans that people complain about--is a benefit. Sorry, lost my time.

CASTEN: The gentleman from Washington, Mr. Heck, is recognized for five minutes.

HECK: Thank you, Mr. Chairman. I want to follow-up on some of the lines of questioning that Congressman Scott engaged in. But before I do that, I--I want to be very clear, very explicit, very up front. I stipulate to the ***need*** to a substantial increase in the consumer ***protection*** regimen to deal with this problem.

It in fact, just seems like common sense to me that absent that--those ***protections*** on a $1.6 trillion circumstance that we can and should act. But there is this issue of the root cause of the cost of higher education going up at a multiple of inflation. I've read 100 percent since 2000. We have specifically cited 50 percent between the years '03 and '16.

The subsequent amount of overall average ***student*** debt has skyrocketed as well. We know that wages have not kept up. But the root cause here seems to be wages aren't keeping up to the increased cost of tuition and the cost of tuition is frankly skyrocketed way beyond the adjusted--inflation adjusted.

One of our--in fact, that very chart there suggests that a decline in state funding is part of the culprit here. I would like to personally attest to that and offer kind of a framework for why this is happening. What happens in--in the west where higher education is the principle delivery mechanism is that when economies have recessions, state legislatures reduce their support for higher education and supplant that support with Board of Trustee increased tuition setting authority.

And as a consequence, every time we hit a downturn, they pull back on their support and say to the colleges and universities, up to you, you can increase tuition or you can cut your enrollment and reduce staff, the latter which is obviously not very attainable. So, Boards of Trustees have hiked tuitions very significantly in the last 20 years and even longer. This occurs every time we hit a recession.

And lest you think I'm just trying to lay the blame off, point the finger at state legislatures. I happen to have been a member of the Board of Trustees of one of those institutions during the last significant downturn. And yes, I raised my right hand in support of a sust--of a substantial increase in tuition to compensate for the reduction in--in state legislative support.

This is going to continue to happen if we ***don't*** come to grips with what overall tuitions are. One of the most insidious effects--and I'm so grateful to those of you who have mentioned it--is that the substantial increase ***student*** loan debt burden has resulted in a significant deferment of home purchasing options. It's just one of the problems, but this is a big one and this is what I want to point out.

Now ordinarily, what I would be sitting up here doing is telling you we have a housing crisis in this country and it is a crisis of supply. And you know what? That's true. We ***don't*** have enough units. It messes with the market. There aren't enough starter homes for these young people who are debt-burdened. Rents are going up because people can't get out of their apartments into their starter homes. So, I would tell you it's a supply problem.

There is this portion of the market, however, where it is demand problem. And what I mean by that is that ***student*** debt is creating a material impediment for them to begin their home ownership. Here's why that is so important in how we have to view this holistically and keep this in mind.

Frankly, I think above and beyond just ***student*** loan servicers which is a problem we ought to attack--defined contribution pension programs in this country have fallen off the table. The increase has been in defined contribution levels.

And as a consequence, the #1 investment--the #1 investment for the average American for their retirement security is home ownership and they are being compelled to defer the beginning of the compounded interest that that investment--that asset--provides them with toward their senior years.

And this is in no small part being brought about as a consequence of increased ***student*** debt which is driven by wage growth being inadequate and tuition skyrocketing. And I--I seek to highlight this and--

(LAUGHTER)

--consume all of my time, and none of yours for which I apologize because I think a dimension of this that should be considered above and beyond the ***student*** servicing consumer ***protection*** reforms--which I hope we will enact in this committee--is how in particular to deal with the home ownership question for those who seek to do it.

They're deferring it. Far fewer are engaged in it and it is going to hurt them in their retirement. And it is a ticking time bomb. Please give that some consideration.

Thank you for your time.

CASTEN: The gentleman from Missouri, Mr. Luetkemeyer, is recognized for five minutes.

LUETKEMEYER: Thank you, Mr. Chairman. As I indicated in my opening remarks, I may be the only guy--if not maybe one or two on this committee--who actually has made ***student*** loans. I did that 30 plus years ago, so I know a lot about ***student*** loan program years ago as well as what's happening now.

And so, years ago I mean, our ***student*** loan past due problem--the collection problem--was right similar to what is in the figures today which--and according to New York Bank less than 2 percent of the private loans go--have problems where 22 percent of the federal loans have problems.

So, it goes back in my mind to underwriting. Mr. Delisle, what kind of underwriting standards does Department of Education have at all? Do they have any at all or are they like, "No, ***don't***. No doc loans that we got in trouble with during the Great Recession"?

DELISLE: Right. I mean, it--it's a federal entitlement. So, you're entitled to the loan if you're enrolled in a school.

LUETKEMEYER: So--

DELISLE: That's it.

LUETKEMEYER: --we have--had an example back in the crash of '08 where low doc/no doc loans were a huge problem because you put people in houses who couldn't afford it. And now you have people with ***student*** loans who can't afford them.

One of the things that we did when--in my bank when we were there, we'd sit and advise people. It's kind of like if they want to come in and buy a brand new--a youngster--16-years-old--wants to buy a brand-new Cadillac and they can only afford a--a used Honda or whatever. What do you do?

You sit there and explain to them why--what they can afford and what they can't afford. That kind of financial literacy--that kind of financial oversight--that kind of financial help is not there I would assume whenever they take out a ***student*** loan today.

So, Mr. Delisle, can you tell me the process--

DELISLE: Yeah. I--

LUETKEMEYER: --for someone to take out a ***student*** loan today?

DELISLE: Yeah. I think the way that the--the program's been designed to try to get at that is to impose some limits on how much undergraduates can borrow. So, it--rather than saying--

LUETKEMEYER: Yeah, but--

DELISLE: --"What's the right amount?" they say, "Well look, if you're dependent on undergraduates your first year of school, 5,500 that's it" it's fairly blunt and unsophisticated. But that's the way--that's the policy we have for dealing with that.

And as I pointed out before for parents and graduate ***students***, there are no limits and that's where the problem is.

LUETKEMEYER: Well, by the same token now if they go into an area of study, then when they get a job in the real world, they're going to have difficulty paying back a $5,500 per year ***student*** loan. They ***need*** to be told that. Do you not agree?

DELISLE: Yeah. I mean, that's--

LUETKEMEYER: And they ***need*** to understand what the--what their ability to--to actually earn in the real world is there, so they understand how they can actually pay back these loans. There is not that kind of explanation in place today, is there?

DELISLE: No. I mean, there are some efforts to make more earnings information available to people who are attending institutions. But in--in terms of--no, nobody sits down and says exactly how much you're going to make. There's no requirement that they do that.

Although I'm a little bit--I--I--I wouldn't imagine exactly that writing something like that in legislation would be the best way to go either because--

LUETKEMEYER: Well, I ***don't***--I agree. I ***don't*** think, you know, my--I'm old enough. I've got the gray hair to prove it. That I remember back in the '70s when the program was in the business of direct lending to farmers. That was an absolute total disaster. It absolutely ruined agriculture for 10 years. Absolutely ruined it because the government was making direct loans to whoever could walk in and sign their name regardless of whether they could qualify because if you walked in and you were breathing, you could qualify.

And that's basically what you've got here and it's ruined the ***student*** loan lending business. It's put the taxpayers on the hook for lots of dollars. And I would argue that whenever you have a blank check and you can hand it to the, you know, Mr. Heck and--and--and Mr. Scott were arguing here a little bit about the cost of education.

Whenever you walk into a school and say, "I've got a blank check. You want to help fill it out and let me know, so I can get into school here?" If there's no accountability on the school's part or there's no ability of the consumer--the ***student***--to go out and choose based on cost what that--what that school can--can--what school they want to go to.

I wanted to go to a better school that cost more. I couldn't afford it. So, I went to a school that costs less. So, what I didn't have is the burden of debt. That's something that ***students*** ***need*** to be told, ***need*** to be explained to them, given to them as an option and say, "Look, when you get out this is the problem, you're going to have with this huge amount of ***student*** debt--"

DELISLE: Right.

LUETKEMEYER: --or you can go to the school over here which is not going to charge you that much and you'll have the ability to repay much more quickly. And then, you can go buy the house that Mr. Heck was talking about.

Quick question also, Mr. Delisle, with regards to the contractive services by the servicers. Who sets those--those parameters in that contract?

DELISLE: The Department of Education does, but by extension Congress does as well because the servicers have to care about--carry out

LUETKEMEYER: I know some of the con--some of the concerns were about repayment. I've got a chart in front of me that has 50 plus repayment options that are given to the ***students*** if I'm not mistaken. I've got two seconds yet and I think this is--this delays to me, the question of what we--we ***need*** to put some more options in here to find, but they've already got over 50 payment options. If that's not enough let's talk about it. But I think we've got a lot of them in there that they can fall in those categories that they should be okay. I yield back.

CASTEN: Gentleman from Colorado, Mr. Perlmutter, is recognized for five minutes.

PERLMUTTER: Thank you, Mr. Chair. Let's--I want to start where

(LAUGHTER)

Mr. Heck left off with his soliloquy and ask you, Mr. Frotman. I mean, what do you in your study see to be the impact on housing of young people coming out of school with a big burden of debt around their necks?

FROTMAN: So, the impact of ***student*** debt is more than just what appears on your bill every month. And--and a significant piece of that is the impact this is having on housing. So, there is one study that's showed for every $1,000 additional for ***student*** debt a borrower takes on they put off buying a house for two and a half months. And we've raised a lot more than $1,000 obviously.

And the impact of ***student*** debt isn't shared equally, so you see a tremendous impact when it comes to African American borrowers, Hispanic borrowers. And I think as Congressman Heck pointed out, this is a tremendous way that people build wealth in this country. And when ***student*** debt is impacting their ability to do so, it--it--it should call us all to--to think broader about the scope of this problem.

PERLMUTTER: Thank you. And--and I kind of agree with a couple of things the gentleman from Missouri, Mr. Luetkemeyer had to say. I mean, choose how big a loan, whether you can repay it, you know. Make some intelligence decisions at the beginning.

But much of this occurred in the recession when people couldn't find a job and figured they should go retrain themselves, so that they could find a job. And so, you know, there's--the cohort is much broader than it used to be of people seeking ***student*** loans and it was at a time when jobs weren't available.

So, I'd like to--to turn to you, Mr. Minhaj, and ask you in your investigations in your expose, what sharp practices, you know, deceitful practices, deceiving practices, manipulating practices did you all see in connection with the servicing?

So, we start with should anybody have taken out the loan in the first place? We can disagree about that and the cost of a higher education. But in terms of servicing, what did you see where there were improprieties?

MINHAJ: Specifically, we saw when it came to servicing, when a ***student*** who was actively trying to find the best possible option to repay--when they would get on the phone with their loan servicer, they oftentimes were given misinformation.

So, instead of telling them to, "Hey, you should probably do an income-based repayment plan" because they were trying to get them off the phone within seven minutes or less, they would say, "Go into loan forbearance." So, that's actively ***students*** are given bad advice that will hurt them later on down the road and they think they're doing the right thing because the person on the phone told them to. The expert told them to.

PERLMUTTER: Did you find any particular servicer to be more abuser than others or maybe not abusive, but maybe give more--

MINHAJ: Navient was really bad. Do you have Comcast? Navient is like the Comcast of--

(LAUGHTER)

--loan servicing. You ever feel that frustration where you're like, "Ah! They're the worst." I think you--you have no choices because the Department of Education put you in this arranged marriage that you can't get out of.

PERLMUTTER: Okay. So, because there are different servicers. And, you know, we really want to get to the bad apples and to the sharp practices or the practices that really hurt the ***students***--

MINHAJ: Yes.

PERLMUTTER: --because first the debt is bad enough. And then, to pile it on gets, you know, really impossible because that gets me to my third question.

And to the lawyers on the panel, you know, in 2005 we made it very difficult for individuals to discharge their ***student*** loans in a bankruptcy. And actually, we've seen the--the rise in sort of delinquencies to go straight up from 2005. So, I would just turn to you, Ms. Harrington, or you, Ms. Yu. I ***don't*** know if you're both lawyers or not, but you seem like it.

(LAUGHTER)

So, I'm going to choose you two to start--

(LAUGHTER)

--on that question.

YU:

So, we absolutely believe that there ***need*** to be more discharge rights for ***student*** loan borrowers and it--this is one of the ways in which ***student*** loan debt is treated different than any other type of consumer prod--product. And borrowers ***need*** the rights. They ***need*** ***protections***. They ***need*** bankruptcy ***protections*** and they ***need*** consumer ***protections***. And right now, ***student*** loan borrowers ***don't*** have them.

PERLMUTTER: Okay. Anybody else?

MINHAJ: For--for what it's worth, I was wait-listed to go to law school.

(LAUGHTER)

PERLMUTTER: You were?

MINHAJ: Yes.

(LAUGHTER)

PERLMUTTER: I can see why--

(LAUGHTER)

--because your professors would've had to take you on all day, so.

(LAUGHTER)

MINHAJ: Actually, I think I was a great--I think I was a great ***student***--

(LAUGHTER)

--and for what it's worth my fingers are still crossed. I'm waiting. It's been--

(LAUGHTER)

--12 years, but you never know.

(LAUGHTER)

PERLMUTTER: All right, I yield back to the chair. Thank you.

(LAUGHTER)

CASTEN: Gentleman from Kentucky, Mr. Barr, is recognized for five minutes.

BARR: Thank you, Mr. Chairman. And Mr. Delisle, since the theme of today's hearing is ***student*** loan--holding ***student*** loan servicers accountable and sense some of your colleagues on the panel seem to be blaming the ***student*** loan servicing industry for the $1.5 trillion ***student*** loan crisis in this country, I wanted to drill down a little bit on the actual role of ***student*** loan servicers in contributing or being part of this--this crisis that we're--we're here to discuss today. Do ***student*** loan servicers advise ***students*** as to which school to attend or which degree to pursue?

DELISLE: No, the servicer isn't involved on the front-end of the loan disbursement.

BARR: Do ***student*** loan servicers set tuition rates?

DELISLE: No.

BARR: Do ***student*** loan servicers advise a ***student*** as to how much money to borrow?

DELISLE: No.

BARR: Do ***student*** loan servicers underwrite ***student*** loans at origination?

DELISLE: No.

BARR: Do ***student*** loans actually issue debt to the ***students***?

DELISLE: No.

BARR: Do ***student*** loan servicers set the terms of the loan?

DELISLE: Nope.

BARR: Do ***student*** loan servicers set the interest rate for the loan?

DELISLE: No.

BARR: Do ***student*** loan servicers create the income-based repayment plan?

DELISLE: No.

BARR: Who did that?

DELISLE: Congress did--

BARR: Congress did.

DELISLE: --and the Department of Education.

BARR: Do--did the ***student*** learn servicers in that industry--did they create the graduated repayment plan?

DELISLE: No.

BARR: Who did that?

DELISLE: It's in statute, so Congress.

BARR: Did the ***student*** loan servicing industry create the extended repayment option?

DELISLE: No.

BARR: Who did that?

DELISLE: It's in statute--Congress.

BARR: Did the ***student*** loan servicers create the forbearance option?

DELISLE: No.

BARR: Who did that?

DELISLE: Congress.

BARR: Do--do ***student*** loan servicers get paid more for informing ***students*** about the forbear--bearance option?

DELISLE: No.

BARR: Do they get paid less for informing ***students*** about the forbearance option?

DELISLE: They are paid less when ***students*** are enrolled in a forbearance.

BARR: So, ***student*** loan servicers are actually not financially incentivized to inform ***student*** loan borrowers about forbearance?

DELISLE: That's my understanding is that's how the contract is structured, right.

BARR: Did it show that nine out of 10 borrowers who are at risk of default can get back on track of their payments if they respond to service or outreach in a timely manner? What impact has vilification of ***student*** loan servicers had on a borough--borrower's willingness to engage with the servicer?

DELISLE: Oh, we've actually seen evidence in the Consumer Financial ***Protection*** Bureau's database of borrowers being advised to take a forbearance when it's pretty clear that they should and they ***don't*** because they ***don't*** trust their servicer. And they've heard bad things about forbearance, so they ***don't*** do it. And then, they default.

BARR: Okay. So, if ***student*** loan servicers are not the problem, let's explore what actually is the problem. Since the democrat Congress and the Obama administration orchestrated the government takeover of ***student*** loans in 2010, the total amount of ***student*** loan debt has exploded.

The federal government is now the largest consumer lender and owns and/or guarantees 92 percent of the more than $1.5 trillion in ***student*** loans. The remaining roughly 100 billion are private loans. The number of federal ***student*** loan borrowers has exploded to almost--by 50 percent since the government takeover.

At the end of 2018, 70 percent of college ***students*** graduated with ***student*** loan debt. Private loans in contrast with underwriting standards that actually involve underwriting that allow lenders to determine whether or not a borrower has the ability to repay have a repayment rate of 98 percent.

And meanwhile, data from the Federal Reserve suggests that approximately 20 percent of federal borrowers are seriously delinquent or in default. Actually, about 36-40 percent that are not fully in repayment are federal loans, not private loans.

So, Mr. Delisle, to what do you attribute the difference in the default rates of private loans versus federal loans?

DELISLE: So, the federal loans are open access. Even people--so, for example, if you lose your job--you become unemployed--you become an excellent candidate for a federal ***student*** loan.

Now that only makes sense--

BARR: All of this--if I could, I just think all of this--if I could editorialize it for a minute here. I think all of this is exhibit A of not just the total incompetence of the federal government but the victimization of ***students*** by Congress, by the federal government, by the U.S. Department of Education. I know everybody wants a boogieman, and the ***student*** loan services are a convenient boogieman. But guess what? Look in the mirror, Congress. Congress created this crisis. Congress created the forbearance option. Congress gave loans to ***students*** and didn't even care whether or not they had the ability to pay and encouraged them to do so.

Meanwhile, we have a dramatic shortage in the skilled trades. We have a dramatic shortage in nurses. We have a dramatic shortage of welders. We ***need*** to be reorienting workforce development and career and technical education to say, look, a four-year college may be good. We ***need*** critical thinking skills. I'm a product of a liberal arts college, but you know what? We ***need*** nurses. We ***need*** cyber security experts. We ***need*** welders and construction trades people. Let's graduate these people in a $100,000-a-year jobs with no ***student*** debt.

That might be a better--better solution than--than--than trying to blame an industry that's just following federal law created by Congress. I yield back.

CASTEN: Gentlewoman from New York, Ms. Velazquez, is recognized for five minutes.

VELAZQUEZ: Thank you, Mr. Chairman. Mr. Frotman, last month, the CFPB announced the appointment of Robert Cameron to serve as the Private Loan Ombudsman. Until recently, Mr. Cameron had been deputy chief counsel and vice president of Enterprise Compliance at the Pennsylvania Higher Education Assistance Authority. In a statement, you were quoted as calling Mr. Cameron's appointment outrageous. Can you elaborate on your statement and explain why you believe his appointment is outrageous?

FROTMAN: So, it's outrageous but not surprising. We have a secretary of Education who has used every tool at her disposal to shield ***student*** loan companies from accountability, and now, the Consumer Financial ***Protection*** Bureau has hired as the top ***student*** loan official someone from compliance at a--a--a company that is at the center of every scandal that has ripped off borrowers for a decade.

So, we have heard a lot today about blaming borrowers or blaming Congress. Congress or borrowers did not force Sally Mae to rip off 77,000 service members. Congress and borrowers didn't force ACS to lie to public servants. Congress and borrowers didn't force public teachers to have their loans turned to grants in violation of their rights, and I think what is happening across this country is that people took on debt to try to get a better life for them and their families, and some of the largest financial services companies in America had been ripping them off for too long. And I think the bills before this committee and this hearing shows that those days ***need*** to end.

VELAZQUEZ: And do you have any concern that the Trump administration only seems to focus on private ***student*** loan services?

FROTMAN: So, absolutely. I think what we have seen now is private sector companies where you have borrowers in all of your states who have alleged that they've been ripped off, and this administration has used every tool at their disposal to say that the federal government can't oversee these companies. Your state attorney generals can't oversee these companies. If this was seven years ago and Arne Duncan told your state AGs that he couldn't investigate--that they were unable to investigate a company for ripping off service members, you would be outraged, and you should be.

But that is what is happening today, is the federal government is trying to shield private sector--private sector companies from accountability for ripping off millions of people.

VELAZQUEZ: Ms. Yu, do you have any comment?

YU:

I absolutely (OFF-MIC)--sorry. I absolutely agree. You know, the fact that the Department of Education is shielding servicers from liability both from the state AGs and from private borrowers who are attempting to protect their own rights is I think as outrageous, as Mr. Frotman said, and I think that this committee--why it's so important for the Borrower Bill of Rights and the other bills that this committee is considering today.

VELAZQUEZ: Thank you. Thank you. Ms. Harrington, in May, the Fed produced a report on the economic wellbeing of U.S. households in 2018, which, among other things, discusses the state of ***student*** loans and other educational debt on the U.S. economy. The report found that individuals who did not complete their degree or who attended a for-profit institution are more likely to struggle with repayment than those who completed a degree from a public or private, not-for-profit institution, even including those who took on relatively large amounts of debt. Can you have any sense as to why this is the case?

HARRINGTON: Absolutely. So, non-completion's a big problem in this country, particularly as you mentioned the for-profit college industry, and so, what you have is ***students*** who had the debt but not the degree. So, they ***don't*** have the ability to then translate that into the job or the income increase that they hoped because they were unable to complete. The ***students*** are unable to complete for various reasons. It's disproportionately a problem for low-income consumers who--low-income ***students*** who have a lot of other things that they are battling as they are trying to attend college.

They're caretakers. They're single parents. They have--they have to have a job as well. So, we have to be cognizant of the fact that that is absolutely a big issue, and there's a big issue particularly in the for-profit college sector.

VELAZQUEZ: Thank you. I yield back.

CASTEN: Gentleman from Texas, Mr. Williams, is recognized for five minutes.

WILLIAMS: Thank you, Mr. Chairman, and for holding this important hearing to help deal with trillion-dollar ***student*** debt crisis. In 2010, the government took over ***student*** lending. At this time, the Congressional Budget Office predicted federalizing this program would generate $58 million in revenue for the government. These initial prediction by the CBO has proven to be wildly inaccurate. The ***student*** loan debt crisis is now estimated to cost taxpayers $306.7 billion over the next 10 years.

This was a massive miscalculation made by the Obama administration. While we can try to single out ***student*** loan servicers for contributing to this problem, the simple fact is that they are a deep-rooted structural--that there are deep-rooted structural flaws that have allowed the crisis to grow these levels. Mr. Delisle, what miscalculations were made back in 2010 when the government took over ***student*** lending?

DELISLE: Yeah, it--it--it relates to the Obama administration's decision and a Democratic Congress to dramatically increase the generosity of the income-based repayment program. So, under the prior version of the program, borrowers paid 15 percent of their discretionary income and had their loans forgiven after 25 years. Under the Democratic Congress and the Obama Administration in 2010, they changed that to 10 percent of income and 20-year loan forgiveness.

Here's what that's done to the annual cost of that program. In 2009, it was about a billion a year. Today, it is 14 billion a year, and that is not what the Obama administration promised us. The president's top domestic policy advisor went on MSNBC and said, "These changes will not cost taxpayers any money." And they've gone from a billion to 14 billion.

WILLIAMS: All right, thank you. I think this is a prime example of a government trying to expand their influence in areas where the private sector can actually perform the task better. Many individuals on the other side of the aisle had been calling for greater government control over larger segments of the economy, such as allowing the post office to offer banking services.

I hope everyone will see the disaster that has unfolded when we've allowed for the Department of Education to become the largest consumer lender in the country. So Mr. Delisle, do you think the private sector of government is better equipped to handle lending?

DELISLE: So, I think on the graduate school side, I think the private market should--could do a much better job. In fact, I think ***students*** who already have college degrees by definition are excellent candidates for private lending, and in the--in the parent loan program, I ***don't*** think the federal government has done a very good job at all there.

WILLIAMS: So--so it'd be safe to say you're a capitalist?

DELISLE: Yeah--yes, I'm a capitalist.

WILLIAMS: All right, thank you. In a recent Bloomberg analysis, it was discovered that borrowers are collectively paying down about 1 percent of their federal debt every year. At this rate, it would take 100 years to repay the loans. Some people in Washington think that simply forgiving the ***student*** debt would solve the issue. However, I think it is a short-sighted approach to a much more complicated issue. I'm a small business owner back in Texas, and in my world, if you borrow the money, you pay the money back, pure and simple.

So, do you think that forgiving current ***student*** loan debt will do anything to ensure that we will not be in this exact same position for the next generations who take on these loans, and what message do we send that it's okay to borrow but not to pay back?

DELISLE: Yeah, I think the--the real problem here, again, is the graduate school. The Department of Education shows that about 66 percent of the borrowers who are using this income-based repayment program, the one that's supposed to be a safety net for struggling borrowers, borrowed to go to graduate school. Many of them are projected to earn incomes $100,000 and above. So, this loan forgiveness program that was supposed to help struggling borrowers has essentially become a tuition assistance program for high-income graduate ***students***.

And that is another example where the estimates for the Obama administration were wildly off. They never told us that that is what was going to happen.

WILLIAMS: Like we say, borrow the money, pay it back. Pretty simple formula. Mr. Delisle, on page seven of your testimony, you talk about the--how the forbearance lawsuit against Navient from the CFPB is misguided. Can you please elaborate this statement?

DELISLE: Yeah, I think there are many incidences were forbearance is--is superior to income-based repayment. Many of the panelists today have told you it's one or the other. In fact, here's the--here's the amazing part. You can actually get a forbearance while using income-based repayment. You can use them simultaneously. In fact, many borrowers call their servicer when they're using income-based repayment, and they say, I still can't afford it. I still can't afford it.

And what do they do? The servicer offers them forbearance. In fact, the servicer can see that the borrower is already using forbearance. So on the kinds of phone calls that you're listening to, you're not privy to that information. So, the servicer is actually making the right decision, realizing there's no more option to lower their person's payment. Forbearance is the best option.

WILLIAMS: Thank you. I yield my time back.

CASTEN: The gentleman from California, Mr. Sherman, is recognized for five minutes.

SHERMAN: Our prestigious and elite educational institutions are revered. They house the smartest and most articulate professors and administrators our society has. So, no smart politician would attack or criticize these revered institutions. Fortunately, this committee includes at least one low-IQ member. So let me say, the tuition is too damn high. It's grown--it has doubled in real terms adjusted for inflation since 1989.

Is it any better? Health costs have also gone up faster than inflation, but at least you live longer if you get the--you know, at the operations are better. Are today's professors any better? I ***don't*** know. From 2003 to 2017, a 48 percent increase in tuition. Now, the--these elite universities and others are able to create a self-perpetuating model that claims that they're accomplishing a lot. They admit only the folks they think are the smartest, the most likely to succeed, and then, they brag that their graduates are smarter and more likely to succeed than the people that weren't admitted to their institution.

And then, they say, that's because they provided them with such a--an outstanding education. Maybe we could do a test and just take all the--those admitted to Harvard and put them on an island for four years. Take them back. They continue to be smart. They continue to, in most cases, be well-connected from rich families, and guess what? 20 years later, they're going to be rich people.

Community colleges in California for in-state ***students*** charge $1,000 a year in today's money, less back when I went to community college. The education is just as good, but what they suffer from is the employers know that all the--the best ***students*** are trying to get out of community college and get into something more prestigious. This is the Investor ***Protection*** Committee. If some outfit got people to invest $100,000 in Zimbabwe currency, we'd be all over them.

Some outfit gets them to invest $100,000 in an art history degree, we think that's fine. We just want to make sure that they ***don't***--that--that the federal government ultimately pays for it. And finally, there's the struggles of the--of families with ***student*** debt. What about the families that ***don't*** go--that ***don't*** go to college at all? They're making less money. They, too, are delaying starting a family, buying a house, and they're from families that are less wealthy than those that are struggling with ***student*** debt.

So, we've got a lot of issues, but we have limited jurisdiction here. Our jurisdiction is over the servicing process. One idea I'll throw out there is that why ***don't*** we allow people, borrowers, to choose another servicer. You're assigned to one servicer. That servicer isn't doing a good job. You should be allowed to--to say, I want--I want this other servicer. Let the servicers compete, but I have a--believe it or not, I have a question for Mr.--

DELISLE: --Delisle.

SHERMAN: Thank you. Private ***student*** loan lenders make 18 disclosures on three separate occasions before the loan is made, providing more personalized information that is provided to those borrowing federal direct loans. Now, you're going to be on the hook for the loan either way, so you'd think the borrower would benefit from disclosures, whether they owe the money to one outfit or another.

Would disclosures for federal loans, like those made to private loan--to private ***student*** loan borrowers lead to better outcomes? And would it make sense to have disclosures on the federal loans be made during the course of study, rather than just at the beginning and the end?

DELISLE: Well, we have a lot of disclosures already. I showed you the forms.

SHERMAN: Yes. I'm talking about the distinction between the federal loans and the--and the private loans.

DELISLE: Right, so I ***don't*** think you're going to really do much good in providing borrowers with more information at this point. I think we're at information saturation in the federal loan program. Borrowers, I had a--

SHERMAN: --So, should we provide less to those who have the private loans or more to the those who have the federal loans, or should we continue to have the disparity?

DELISLE: Sure, well look, a borrower right now in the federal loan program has to sit for 70 minutes of entrance and exit counseling.

SHERMAN: Okay.

DELISLE: To get that--

SHERMAN: --I'll--I'll ask another witness. Mr. Frotman.

FROTMAN: So, what I've seen is that people are taking on debt because it's the only way they could get the degree. This isn't a boot--a bootstrap moment. This isn't a tightening of the belt. People are taking on debt because they're going to school, and this is the only way they can.

SHERMAN: I agree. Come to Pierce College, $1,000. I yield back.

CASTEN: The gentleman from Arkansas, Mr. Hill, is recognized for five minutes.

HILL: I thank the chairman. I thank the witnesses for being here on this issue. Certainly, all of us sympathize with the challenges that ***student*** lending has brought to a lot of families across our country. I agree with a lot of the comments today that this really isn't the jurisdiction of--of the committee and that this kind of debate really should be held firmly over the Education Committee, and to paraphrase Mr. Frotman, you should know the names of who owes apologies to these families across the country.

That's important. First of all, state legislators, state legislators who ***don't*** fund higher education, as they had over the entire post-war environment. State legislators who, instead of doing that, have regressive taxes called lotteries and hand out scholarship money. The Congress and the Education Committee and the Affordable Care Act proponents that sold a bill of goods to the American taxpayers and the American people, saying that this was a reform that would benefit families and pay for the Affordable Care Act.

They promised $58 billion over 10 years to positive contribution to pay for the ACA. What is it? It's costing us $306 billion negative--it's a $306 billion 10-year negative, is what CBO says, the ***student*** loan system's contributed. Apology from colleges and universities, who aren't educating people in that ***student*** aid officer or in that admissions office about the cost of college and that you should--you know, all the ways to go about it. They ***don't*** do financial literacy training, which is why I support that bill so strongly with my friend Bill Foster from Illinois for Pell and non-Pell and all ***student*** loan people that they have some sense of where they're going with this.

Those people--our families are owed an apology for that group of people that have contributed over a long period of time to this crisis. I'll also say that families bear a responsibility of sort of knowing what they get into. I agree with you that, you know, this is presented for a lot of families as this is the only way they're going to go to a higher ed or a two-year school. I agree, and this gets into the comments we've all had about rising tuition at these rates. The rate of higher eds since 1975 per annual income is higher than the healthcare per annual inflation rate that we had collectively complained about as families.

It's higher, and I would submit scholarship lotteries, taking away state legislator support, promoting money with no strings attached; all those things subsidize what? Higher tuition. So, I admire people like Mitch Daniels at Purdue who says, "We're freezing tuition. We're going back to basics to try to make sure we're doing a better job." And so, our administrators owe us that, but fundamentally, there's no underwriting in these loans. I was at a panel yesterday talking about algorithmic lending, credit underwriting, and someone said, we have a terrible, atrocious problem with our ***student*** lending.

We try to underwrite the loans on the back-end because there's no underwriting on the front-end, and so, that's why these servicing companies have so many complaints about it. And finally, I'll say as a community banker for a long time, nothing broke my heart more than a story--a nurse, she came to me. Her dad asked her to come see me. Made $38,000 a year working four days a week as a registered nurse or LPN at one of our big hospital systems. She went to the U of A Little Rock, single mom, child. Lived with her mom. So, she didn't have a housing expense.

She had $170,000 of ***student*** loan debt. Why? Pay for your rent. Pay for your childcare. Pay for your (INAUDIBLE). Pay for room and board. Pay for all these expenses plus tuition and books. So, that's why I think financial literacy is so, so important here and that personal responsibility. This is an interesting hearing. I thank you for bringing these subjects. I'm sure the CFPB can do more about transparency. Maybe we can improve the forms that accordion out.

We were promised in 2009 that would be a principle mission of the CFPB. Transparency and shortening forms and making it easier for consumers, but the fundamental issue, Mr. Chair, is this should be dealt with in the Education Committee. We ***need*** to reform this plan, and we ***need*** to let families get out from underneath this crushing misdirection of government policy and ***student*** lending.

CASTEN: The gentleman from New York, Mr. Meeks, who is also the chair for the Subcommittee on Consumer ***Protection*** and Financial Institutions, is recognized for five minutes.

MEEKS: Thank you, Mr. Chairman. You know, I--I--I cannot--this is a very, very important subject matter for me, being a kid that grew up in public housing, not having any family member prior to me able to go to college, parents not making much money. I think my dad at the time might've made $125 a week, but they had hope for their son, their oldest son, to break the barrier and go to college. They surely couldn't pay for it.

Had I gone to a bank at 18 years old and said, give me a loan, and they were going to go through a whole lot of piece about whether or not I could pay it back, I would not have gotten a loan. I would not have had a chance at getting an education. At 18 years old, never worked in my life, parent's poor, can't contribute anything. I would've been denied an education and, therefore, not sitting here today because the most significant thing to me is an education.

I left, I apologize, out of here because there was a--a ceremony going on, why I have this kente cloth on. About 400 years when the first indentured Africans were brought here as slaves and talked about one of the first thing that they were denied was the right to read and get educated. To anything to give them enslaved was to prevent them from having an education, and that's ultimately what this is about. If you're rich, you're going to qualify for a loan. You shouldn't ***need*** to get one, but you'll qualify. You'll meet every metric.

But if you're poor, you're in trouble, and I see every other nation focusing on their young to try to make sure they're doing everything that's possible that they get an education because that is their key to their future, and we talk about it being in a competitive world if we're leaving the majority of our individuals uneducated because they can't afford an education that we are endangered as a country. Now, I think all of you on the panel will agree that when we talk about the current ***student*** debt, it is a crisis. Is that not correct?

It's a crisis. It's a crisis for America. Mr. Frotman, let me ask you, and I heard my colleagues on the other side talk about all of this, but if that was a crisis, and I think it is a crisis for us, right now, the government of the United States is spending--and I guess them call them socialists, but it (INAUDIBLE) $18 billion to farmers because of tariffs and other policies that the administration. What would $18 billion do to help the crisis of ***student*** debt?

FROTMAN: It's a great question, congressman. I think--I've traveled coast-to-coast talking to ***student*** loan borrowers in blue states and in red states, and they--they ***don't*** want apologies. They want help. They--they ***don't***--they ***don't*** want to hear about a president who hasn't been in office in three years or policies from a decade ago. They're struggling now, and this is the committee that ensures that those who took on the debt ***don't*** get ripped off. And they're getting ripped off.

They're calling their ***student*** loan company and getting bad information. They're getting harassed by debt collectors. So, $20 billion, sure. But this is the committee that stands up for those people who have taken on debt to try to make a better life, and ***student*** loan borrowers ***need*** you to do it again.

MEEKS: Now, would it help--because the FHA does not adjust for income-driven repayment plan, which allows borrowers to pay a reduced amount for their ***student*** loans each month based on their income and family size. Instead, debt-to-income ratios are calculated using debt figures higher than the actual figure people are paying. This makes it difficult for many ***student*** borrowers to obtain an FHA mortgage. Shouldn't the FHA base debt-to-income ratios on the amount ***student*** borrowers actually pay?

FROTMAN: Yes.

MEEKS: Ms. Yu?

YU:

Absolutely.

MEEKS: Ms. Harrington?

HARRINGTON: Yes.

MEEKS: Mr. Minhaj.

MINHAJ: Sure.

MEEKS: Mr. Delisle?

DELISLE: Well, I think is a good illustration of two complicated federal programs not working well together because they're complicated, right? That's the source of this problem.

MEEKS: And--and the focus is--and I--I go back to my--to my other issue because the focus is--and I see I'm out of time, so I'm not going to get a chance to do it because he's anxious to bang that gavel.

(LAUGHTER)

I yield back the balance of my time.

CASTEN: The gentleman from New York, Mr. Zeldin, is recognized for five minutes.

ZELDIN: Thank you, Mr. Chair, Ranking Member McHenry, and I actually--I'm going to want to pick up where Mr. Meeks just left off in a moment. I--I ***don't*** think anyone disputes that there's a ***student*** loan crisis in our country. A recent study in my home state of New York shows that the average graduate is graduating with approximately $30,000 in ***student*** debt. The federal government nationalized ***student*** lending as part of the Affordable Care Act in 2010.

Since then, the federal government has become the largest lender in the nation because it owns or guarantees, as pointed out earlier, $1.6 trillion in ***student*** loans and as has been--has been said by others, only 8 percent is held by private lenders. At home in my district on Long Island, we have the next generation trying to achieve the American dream to be able to start their family, to buy a home, to afford a car that would get them to work. The burden of ***student*** debt certainly is a huge obstacle.

It's clear we have a problem. ***Students*** are borrowing exorbitant amounts of money, and many ***don't*** fully comprehend what they're getting into in the first place. I would use this opportunity to put in a good word, as Brad Sherman was pitching a local college, we have the State University of New York. We have the City University of New York. In my home county, we have Suffolk County Community College.

I was actually recently at a graduate ceremony for a two-year graduate at Suffolk Community College, and because he made the most of his experience, he was actually transferring to Cornell on a full ride. Then, he was going to have an Ivy League degree because he applied himself well at--at this great community college locally.

There are an incredible number of requirements placed upon lenders in the private sector when they originate loans and consumer credit markets, notably the requirement the lender approve a buyer's ability to repay at the time of origination. It doesn't make sense to me that we wouldn't hold the federal government to the same standards. The federal government lends to anyone without regard for its ability to repay. Disclosures for key loan terms, like APR or future monthly payments, are not required on thorough ***student*** loans either.

I--I thought Andy Barr's line of questioning was great, as was French Hill's recent remarks. Though it's not in the committee's jurisdiction to pass here, I introduced the ExCEL Act HR. 4079, and this is where I want to be able to pick up where my--my colleague from New York, Gregory Meeks, just left off. I--I believe that the system should allow people to be paying off their loan based on their ability to repay. For some people, they will be able to repay in a shorter amount of time than others will.

There are periods of low income or unemployment over the course of your career. This is where you can rack up a lot of defaults with--where you owe a lot of money. We ***need*** to help people get through those periods of low income--low income or unemployment so that they're not defaulting and that they're able to more quickly get back up on their feet. Also as people are seeing increases, if we are moving into--if we were able to move into a better system of factoring inability to pay, as somebody is getting a promotion and they're getting more of a salary, you want to make sure that the increase that they might be paying towards their ***student*** loan is one that doesn't remove the incentive for being able to get that step up in--in salary.

So, it should be--there should be an increase there. Also, people ***need*** time to get their feet under them. So, you graduate. You get your job, and your--your first bill is quickly come due, but your ability to pay that first payment in year one or year two is not the same as your ability to be able to make that repayment, say, in year 7 or year 10 because now you're further along the--the career ladder--ladder. So, this flexible repayment approach focuses on the ***student***'s ability to repay loans based on their income to ensure the ***student*** is not being able to set up to fail.

Everyone benefits when borrowers and lenders operate under a rational incentive structure, especially when it comes to servicing and loan repayment. Borrower servicers and the taxpayer all benefit when borrowers stay current with their payments. This committee may not have--this committee does have purview over the private ***student*** loan and their servicers, as French Hill pointed, there's a lot that ***needs*** to get done under the jurisdiction of the Education and Workforce Committee.

Mr. Delisle, I know you may not be able to comment specifically on the merits of the ExCEL Act, but what kind of lessons can federal ***student*** loan originating servicing learn from the private loan originating servicing market.

DELISLE: Well, I--I--I want to get out something you asked around the--you mentioned about the--the ***need*** for flexible repayment options in the ***student*** loan program, and I--I should point out that--that we have them. We have this income-based repayment program, but ironically, it's actually why we're having--my understanding is why this hearing was called. Many of the borrowers who were complaining about ***student*** loan servicing were actually complaining about the terms of the income-based repayment program.

They say, I've been making payments for years on time. I've never missed a payment. My balance keeps going up, and they think the servicer is pulling a fast one on them. It's actually how this program was designed (INAUDIBLE)

ZELDIN: I'm out of time, but I--I just want to point out we ***need*** to make some changes to that because it's not working for the government. It's not working for the borrower and--and many others. I yield back.

CASTEN: The gentleman from Texas, Mr. Gonzalez, is recognized for five minutes.

VICENTE GONZALEZ: (OFF-MIC) I--I ***don't*** have a lot to comment. I--what I--I--we--we've, you know, shot arrows at each other and talked about all the issues that are wrong. If--if I had to ask one question, it would be what's the solution, and I'll ask Mr. Frotman. If you had to come up with a solution to the grave issue that's impacted everyone--certainly, I was a ***student*** loan recipient. I wouldn't have been able to go to school without one.

I had $100,000 in--in ***student*** loan debt when I got out of law school, and you know, I had to live in a--in a, you know, matchbox apartment and really just hunker down to eventually pay that debt. And it was--you know, I did it with much gratitude because I--I certainly wouldn't be here if it hadn't been for that opportunity, but clearly, something's really screwed up in this country when it comes to ***student*** loan debt.

And I ***don't*** know that we have the answers to it. Maybe you guys do. So, I want to hear your opinion and others on the panel.

FROTMAN: So quickly, I think there--there is some truth to the fact that a lot of this problem doesn't rest with this committee but a lot does. And I think what we have seen is that ***student*** loan borrowers are getting ripped off, and one of the reasons why they are getting ripped off is because they ***don't*** have the same rights and ***protections*** as if they were paying back a credit card or paying back a mortgage.

And we've heard a lot about how about servicers are just doing the right thing. As part of the lawsuit with the--all the states and the CFPB against Navient just documents the--the incredible incentives that these companies have to try to drive a profit. So, there is one employee at Navient who described it this way. Do I help this borrower and answer their questions, or do I rush through it and afford my groceries this month? These are the incentives that the call reps at these companies have to give bad information, no information, or little information at all?

And borrowers ***need*** rights and ***protections*** that are enforceable, so when they get ripped off, they can stand up for themselves.

YU:

So, I absolutely agree. I think that there are numerous problems, and I sincerely do hope that we solve the, you know, tuition crisis. However likewise, the borrowers that we work with, they took on this debt because they wanted to improve the lives for their families, and now, they're saddled with that debt. And today, there's a hearing in the 11th Circuit, where Great Lakes is arguing that they ***don't*** have to be held accountable when they commit fraud and misrepresentation because it's preempted by the Higher Education Act.

And I think what this committee ***needs*** to do is to say that borrowers should not be cheated and lied to.

HARRINGTON: I'd agree with my colleague. I think that ***student*** loan borrowers deserve and ***need*** the same ***protections*** that all consumers are entitled to in this country. I think that the solution to the ***student*** debt crisis is both working on front-end and back-end affordability, and that's what we're talking about here. And affordability absolutely includes at the back-end strong servicing ***protections*** and--and quality servicing for all borrowers.

We do ***need*** to increase the amount of the Pell grant. We do ***need*** to increase investment in HBCUs and MSIs. We do ***need*** to do a lot on the front-end, but the--this committee has a--has a big part to play in making sure the CFPB can actually protect ***student*** loan borrowers.

VICENTE GONZALEZ: Thank you.

MINHAJ: Mr. Gonzalez, I--I'm very passionate about this issue because I'm lucky. When I left college, I didn't have any ***student*** loan debt because I have immigrant parents, and they made me live at home with them. So, I ***don't*** have crippling ***student*** loan debt. I have crippling emotional debt, and Congress has yet to stand up--

UNKNOWN: --We all do--

MINHAJ: --and do anything about it and stand up to my parents and say, what you did was wrong.

(LAUGHTER)

But you ***don't*** have to have crippling ***student*** loan debt to--to have empathy for people who are investing in their futures. And that's why I'm here today.

VICENTE GONZALEZ: Thank you.

DELISLE: So, I--I mentioned in my--my testimony that I think we ***need*** a simpler system. The program has too many options, too many overlapping features that are just too complicated even for Congress to anticipate the confusing way they interact and trip up borrowers. And actually, many of them actually look like the borrower is being scammed or a borrower says, for example, wait, my payment increased, and I didn't even know it was going to do that. How come my--I've been paying the same payment for the same month, and all of a sudden, my payment increased? Those, you know, nasty ***student*** loan servicers.

Actually, it turns out the borrowers and the graduate of repayment plan that's spelled up in statute, where their payment increases every two years. All right, so, the program has been designed to look like a scam to borrowers. So, I think the big solution is to stop blaming servicers and get busy fixing the terms of the program.

VICENTE GONZALEZ: Thank you. I yield back.

CASTEN: The gentleman from Georgia, Mr. Loudermilk, is recognized for five minutes.

LOUDERMILK: Thank you, Mr. Chair, and we truly--this is a crisis. We're seeing it, hearing it all around, and before I start my questioning, Mr. Chair, I'd ask unanimous consent to insert into the record two letters regarding the ***student*** loan crisis by the Consumer Bankers Association, identifying the crisis and suggested solutions to that.

CASTEN: Without objection.

LOUDERMILK: Thank you. As recently meeting with some constituents, this is about three years ago back in the district and we were talking about the--the--the void we have in jobs in the nation. And I was talking about the ***need*** for a lot of technical skills and stuff, and after I got done, this young lady comes up to me, and she said, look, I have a twin sister. Both graduated high school at the same time. Went to a tech school. Went right into the workforce.

And she said, and you know in four years, I've made more than my sister has in ***student*** debt at this point, which was incredible to me that now in four years in a--in a--in a field--professional field that this young lady went to tech school. Now has made more than her sister had in--in ***student*** debt. I started looking into it more often and realized that, you know, we--we truly do have a crisis, and there's a lot we have to do.

And Mr. Frotman, you said something earlier that I want to follow up on. You said, ***students*** have to have a loan to go to college. Is that true?

FROTMAN: Sorry--sorry if I wasn't clear enough. I was saying, when I talk to people over the last half decade, that's what they feel like, from I think (INAUDIBLE) that said this best, which is, people ***don't*** feel like they have a--a choice. For as long as I can remember, I'm sure for as long as many of you can remember, it was go to school, take on the debt.

LOUDERMILK: Right.

FROTMAN: And I think what is happening is that for enormous swaths of American society, that decision is premised on whether or not you--

LOUDERMILK: --So, it's--it's more that people feel than actually--I mean, do we happen to know what percentage of ***students*** actually graduate with no debt? Does anybody know what that is?

HARRINGTON: In the 2016 class, 70 percent of graduates had ***student*** loan debt, so this is a--

LOUDERMILK: --Okay, so about 30 percent?

HARRINGTON: This is a vast majority of ***students***, and this--and it is something that is no longer a choice. 65 percent of jobs by just next year are going to require some form of postsecondary education. That's--that's only going to go up.

LOUDERMILK: Okay. I've just wondered because of that. I started thinking that two of my three children graduated four-year college institutions with zero debt and no scholarship. They actually worked--I couldn't pay for it. They actually worked and paid for their tuition even from some--some colleges you would recognize. And so, I--

DELISLE: Congressman, if I might--if I might--

LOUDERMILK: --Yeah--

DELISLE: --add to that statistic, that many of the people who take out ***student*** loans come from high-income families, which should tell us that people aren't necessarily taking out ***student*** loans because they have to. They're making choices. They may be making choices to attend more expensive schools. They may think the government is offering such an incredible deal, you can't turn it down. So--so I think it's important that we tend to cast ***student*** debt as this thing that only low-income people take, and it's this huge burden. But many high-income families are choosing to use it.

LOUDERMILK: So, let's follow on with what you're talking about there. So in their truth in lending that they receive--I assume they receive a truth and lending statement to know what the repayment requirements are. I mean, you're talking about people calling back and saying, why did my costs go up. Are they receiving documentation showing the requirements that they have to repay this loan?

DELISLE: Yep, they're receiving an overwhelming amount of documentation. They also ***need*** to sit for about 30 minutes of entrance counseling and about 30 to 40 minutes of exit counseling to get the loan, sign a master promissory note, and then any time they use a different repayment plan, they're also signing another form. So, we--we ***don't*** have an information deficit. We have as much information as we have options in this program, which is way too many.

HARRINGTON: So, could I add something?

LOUDERMILK: Yes.

HARRINGTON: So yes, there are high-income individuals who do take out ***student*** loans, but there are a significant number of low-income individuals who have to take out ***student*** loans. And that's where the issue lies. Ninety percent of the defaulters are low-income ***students*** who were eligible for Pell grants. So, those are the folks who are struggling to pay the most, and that continues to be the case because the ***student*** debt has not taken them to where they were supposed to go. So, we do have issues in this--with this system.

LOUDERMILK: Do you agree with Mr. Delisle that they are--they do know going into what the requirements are of repayment, their interest rates, their payment, the escalating payments? I mean, is that--is there enough disclosure there?

HARRINGTON: I ***don't*** think this is a question of personal responsibility or more disclosures. This is a question of how we make sure that private actors are acting in the best interest of consumers and ***students*** and, therefore, taxpayers.

LOUDERMILK: Well, I think it is, in a sense, if--if I--I was under the impression that they were just being given loans by statute or whatever, and they didn't know what they were getting into and the requirement to repay. So, that--that would be my question. I mean, you buy a house. The (INAUDIBLE) requirements is so expansive with the truth and lending that--that we have to have software to do it. But anyhow, I see that I'm out of time. I can--I can submit the rest of my questions for the record. Thank you.

CASTEN: The gentleman from Florida, Mr. Lawson, is recognized for five minutes.

LAWSON: Thank you, Mr. Chair, and welcome to the committee. This is very interesting to me because I have probably over 100,000 ***students*** throughout the 5th Congressional District, so I talk to ***students*** all the time. I probably have--you know, I didn't have any ***student*** loan because I was an athlete, and so--but a lot of my colleagues that I was in the dorm. And so at night, we'd be talking about what's going to happen the day I'm going to have to pay them back.

I have a--a--taken a great deal of interest in this particular area, and I--I ***don't*** think the federal government caused any problem because--Congress because we are the good guys, you know. And everybody else is bad. But I have introduced several bills to address various angles of the ***student*** loan problem. These includes a bill to refinance federal loans with a fixed interest rate, excluding income of dependent ***students*** and the expected family contribution calculation that most recently on a bill to extend the interest-free grace period for federal loans.

And--and the reason why I introduced those is because six months after the ***student*** graduates from college and they ***don't*** have a job, they're expected to pay. So hopefully, we can delay it for at least a year, so you can give them the opportunity to get a job. The--and also, you could just about refinance just about everything, so they should be able to refinance ***student*** loan. I would like to hear the panel discussion on delaying ***student*** loans for at least a year, so they can find a job, and the ability to refinance ***student*** loans. And I'll start with you, Mr. Frotman.

FROTMAN: So, I think we often get stuck in this mindset that you ***need*** to have a silver bullet to solve every problem. There is no silver bullet to solve a $1.5 trillion ***student*** loan problem. So, I think bills like these are--should be encouraged. I think we ***need*** to try attack at all the different ways that ***student*** debt is not only impacting individuals but our larger society. So, I--I'd love to learn more about these bills and work with you.

YU: Thank you for your--your question. Certainly, borrowers ***need*** more assistance getting off the ground. You know, interest rates for some borrowers are way too high, but also, the borrowers that we see, you know, it is the fact of their debt. It doesn't matter if it's $5,000 or $50,000, whether or not it's a 5 percent or a 10 percent interest rate. The borrowers that we work with are just struggling with debt all around, and they ***need*** to make sure that they're able to access the programs that already exist.

They would greatly benefit from income-driven repayment. They would greatly benefit from a lot of the cancellation programs that already exist, and they're just not able to access those because of lack of consumer ***protection***.

HARRINGTON: I'd agree with my colleagues, and I'd just add that there definitely does ***need*** to be streamlining and improvement of the income-based repayment program. Make it actually affordable based on 8 percent of discretionary income, not 10 percent. Increasing the line above which income starts to 250 percent of the poverty line. There's a number of things we can do. Making it one plan, but again, all of that only matters if ***students*** actually can access these programs and plans, if their servicers are actually doing their jobs, and if they have the information they ***need*** to be successful.

MINHAJ: I'm not an expert when it comes to refinancing, although I am very good with Microsoft Excel and macros.

(LAUGHTER)

DELISLE: So, you can refinance a federal ***student*** loan. The federal ***student*** loan has no prepayment penalty. So, you are free to go out into the private market and shop for a better rate, obtain the better rate, use all the proceeds from the new loan to pay off the old loan, and you've refinanced. Exactly like you refinance a mortgage. I ***don't*** know why it is--it is--this is a common misperception that you can't refinance a ***student*** loan.

There's actually--it's happening all the time. It's happening right now. There's a company called SoFi sending out mail all over the place, saying, refinance your federal ***student*** loan with us. So, you wouldn't build a whole company around something you can't do, right. So, I think there's ample evidence that you can actually refinance a federal ***student*** loan.

LAWSON: With everything that I've heard from you this morning, you all are the good guys because it seems like everything that's been discussed here, ***students*** ***don't*** know about it, and the people who've been on this panel and talking about it, even some of the members, have no idea about all the things that are available for ***student*** loans. What I've heard is oftentimes they're not able to refinance ***student*** loans and the federal government should not be making a profit off the backs of ***students***.

And I know I'm running out of time. I'd like to have more discussion with you in the future, and with that, I yield back.

CASTEN: The gentleman from Ohio, Mr. Davidson, is recognized for five minutes.

DAVIDSON: I thank the witnesses, and I thank the committee for talking about a major problem in the country, the ***student*** debt crisis. We've seen it accelerate in the past decade, and I think we can go back and pinpoint the point in time when the rate of growth of the problem began to accelerate. The question is, do we have the resolve to actually go to the root cause, or do we want to do things the way Congress normally does, which is akin to the fire department showing up at a burning building and looking at the building burn while we blame one another or try to figure out who's fault it is.

We just ***need*** to put out the damn fire, and so, when you look at it, how do we do that? The structure in Congress actually prevents getting to the root cause. We--we've got a committee that can only deal with the jurisdiction of servicers. So, we're sitting here talking about the issue of how--Mr. Barr highlighted the very limited ability of servicers to actually spend this problem. We're spending hours talking about services here--servicers here instead of talking holistically about the root causes of problem and how do you deal with that.

What we did is, as a country, we decided that we wanted ***students*** to be able to get loans that the private sector wouldn't make because the default rates would be too high. So when I was a young person and I looked at how much debt I would ***need*** to take on and I looked at the alternatives I had, one of the reasons that I loved my option, one of the reasons I chose to march for free college back in the day, is because the Army had the college fund.

And I was able to go to the Army and have a path to not go into debt as my first act as an adult but to defend our country. And that led me to go to the United States Military Academy and all that is part of why I'm here today. So, I do want to thank the American taxpayers who paid for me to have a great high-quality education, and I think when we think about the taxpayers of America we ***need*** to forget about the forgotten men and women who are actually being defrauded here. And it's the taxpayers because they're fronting all this money for no sound underwriting to people who do not have a realistic expectation to pay the money back.

Now, that doesn't mean that those ***students*** are committing fraud, though some may be, but they do not have a realistic prospect of repaying the loan. And when you have market principles at work, people ***don't*** make the loan. They ***don't***. They say, you know, I love you. It's not about you as a person. It's you do not have a realistic expectation to pay for this, and when we lost those principles, that's how we crashed the housing market in the United States, and that's how we're crashing the education market in the United States.

There are a lot of people being hurt because lawmakers are making half-baked solutions to real problems because the way this place is structured with jurisdictions doesn't allow solutions to the whole problem. We could--we should be structuring and saying, you know, the ***student*** debt crisis is a problem. We've got a committee for that. That committee has jurisdiction to deal with the whole problem. We should talk about healthcare and say, you know, the status quo is broken. We should have a healthcare committee. 20 percent of the U.S. GDP, 20 percent, and instead, we divvy it up amongst three committees.

You look at immigration, same story, so on and so forth. The spending problem, the broken welfare system that means tested programs, the poverty assistance that we have divvied up amongst 12 of 16 committees. Can't even get a bill to holistically deal with it to appoint a commission for Republicans, for Democrats. You can't cut spending. You can't launch new programs, but you could refine it to fix the benefit (INAUDIBLE) that are in there.

No one can convene it because there's not a single committee with jurisdiction, and yet, Congress sits here. We demonize each other. We point cameras and say, see, here's the problem. That's the problem, when we ***don't*** get to the trouble to put out the fire and solve the problem. If we want to do it, colleagues, we have to change the structure of the way this place works and do bills that get to the root cause because the American people are being defrauded.

We're going to bankrupt our country by spending more money than we have the same way these ***students*** are being bankrupted right out of the gate, the earliest stages in life by taking on more debt that they can afford. That's exactly what this nation is doing today, and we ***need*** to change the broken status quo, and that starts right here in this body. I yield.

WATERS: Thank you. The gentleman from Guam, Mr. San Nicolas, who is also the vice chair for the Committee on Financial Services, has been recognized for five minutes.

SAN NICOLAS: Thank you so much, Madam Chairwoman. I ***don't*** think anybody's hands are clean in all of this. I ***don't*** think anybody's hands are clean. I think that, you know, politics has a way of making us try and pigeon-hole the problem and make it be the previous guys' problem or try and, you know, identify some other reason why things are the way they are, but the reality is that our entire system is kind of designed to create this mess that we have here today.

Ms. Harrington, when you say 90 percent of the defaulters are low-income Pell grant recipients, I think that speaks volumes to how systemic this problem is. You know, we have our people in this country who are looking for opportunities. They see education as the way to go, which is how we're all raised. We're all raised and told, go and get a good education. It's going to open doors for you, and it's going to create the better life than the life that we have now.

We have these, as Mr. Sherman pointed out, institutions of higher learning that see all this money available, and they keep increasing tuition rates. As a local lawmaker back home, I remember trying to introduce legislation to reduce the amount that our ***students*** had to pay for tuition, and one of the--one of the individuals in the university told me, they said, we ***don't*** want to drop it below the Pell grant rate because that's free federal money that we're bringing in. And we want to bring that money into the territory.

And you kind of sit back and you look at how the system's almost designed to--to--to make the pursuit of capital on the--on the front-end the priority and the pursuit of the American dream for all those people, you know, trying to find whatever way they can to get to where they want to go kind of falling into that trap. And of all things, I think that this is ultimately an indictment on our inability to provide significant financial literacy education in our community so that people ***don't*** make these individual choices that are--are hurting them.

But when the whole system is almost designed where you ***need*** to go and you ***need*** to attend the best possible university you can just get accepted into, so you can possibly get the best job that you're going to be able to get after you graduate. And then, you borrow as much money as you ***need*** to borrow in order to get from--from here to there, it's that classic case of the ends justifying the means. And unfortunately, what's resulted in all of that is $1.5 trillion in ***student*** loan debt and a lot of people who--who took that option, trapped--they're trapped because now they have this debt.

And it's affecting the debt-to-income ratios. They're not able to go out and borrow for a car to drive to work or to borrow to buy the home that they're--that they're dreaming of for their families, and as much as we talk about systemic risk in this committee and as much as this committee has done so much work to address it when it was affecting the big banks, we ***need*** to really ask ourselves the hard question. Is it systemic risk for an entire generation to be lost to ***student*** debt and to hold them all back because they fell into a trap that our society has kind of created for them.

And so, we've asked the question of, you know, what can we do, and I know that the committee has kind of stayed focused on the servicers. And definitely, there's a service gap that we ***need*** to fill, but I wanted to ask the $1.5 trillion question. And this is the political question that I think a lot of people are talking about, and there's some broad stroke solutions that people mention that are running for higher office.

But I wanted to ask you folks, what would you do about the $1.5 trillion--I ***don't*** want to say elephant or donkey in the room, but just the $1.5 trillion giant that we're all facing here. How do we--how do we address that?

FROTMAN: So, I think it starts first off in hearing rooms like this. I think for years when we started doing this work at the Consumer of Financial ***Protection*** Bureau and you would talk about impact of ***student*** debt, everything would always revert back to, let me tell you how we're going to make college more affordable for the next guy.

An entire generation felt like we were writing them off, so I think--I'm not trying to evade the--the--the question at all, is we just ***need*** to talk about the impact that this debt is having and then come together and realize that it is just an unacceptable outcome for 45 million Americans who've seen their chance at the American dream hampered by ***student*** debt.

And I think it starts there. It starts about--talking about housing, impact on buying cars, impact on racial wealth gap, on income and equality because I think the--I think--we hear about this issue sometimes talked about as like a generation eating too much avocado toast, right. And nothing could be further from the truth. The fastest-growing segment of ***student*** loan borrowers are older Americans, and I think we ***need*** to come together and realize that this is impacting huge swaths of American population and the American economy.

SAN NICOLAS: We're almost out of time. Does anybody have a solution? I mean, we are talking about forgiving ***student*** loan debt, hitting the reset button. Does anybody here advocate for that or something similar?

HARRINGTON: Absolutely. So, we just got a recent report with NAACP (INAUDIBLE) Leadership Conference on Civil and Human Rights in the Urban League where we argue for (INAUDIBLE) cancellation, even of $10,000 across the board, which would have a significant impact for many borrowers, especially borrowers of color. The--

SAN NICOLAS: --So not full forgiveness but even just partial would give the breathing room necessary--

HARRINGTON: --That's actually full forgiveness for a significant amount of people who are most at risk. So, the 90 percent of--the 90 percent of defaulters who are low income are--the median amount they're--they're defaulting on is less than 10K. So even at $10,000, we would have a significant impact on the lives of millions of borrowers, and we'd help lift them out of poverty.

WATERS: The gentleman from Tennessee, Mr. Rose, is recognized for five minutes.

ROSE: Thank you, Chairwoman Waters. I'm a graduate of Tennessee Tech University in--in my hometown of Cookeville, Tennessee, and fortunately, I graduated from Tennessee Tech with no ***student*** debt and--and just recently was looking at the statistics for that university and see that still today 48 percent of their graduates graduate from the university without ***student*** debt. And the cost is very reasonable, and it's a great university.

It seems to me, and I think others have made this point today, but I want to bear down on it, that we are here swatting at something that is really not the problem. And--and this committee, unfortunately or fortunately, depending on your perspective, doesn't have the jurisdiction to deal with the problem. And so, I--you know, I look back to July 2010, when the Affordable Care Act was signed into law, and since that time, all new federal ***student*** loans have been made through the Federal Direct Loan Program administered by the Department of Education.

Today, nearly $1.4 trillion of the $1.5 trillion in ***student*** loan debt is owed or guaranteed by the federal government, a federal government who did it explicitly because they thought they could make money and use that money to offset the cost of a new entitlement. And I think--I think what we see, unfortunately, here in Washington is over and over again the federal government occupies a space that the private sector was handling fairly effectively and turns it into a giant mess.

And so, now here we are trying to swat at the--at the symptoms of--of this ill, and--and so I'm really kind of mystified by why we think beating up on the servicers is somehow the answer to this problem. I mean, by that logic, it is the people who work at the servicers who the problem. It is those bastardly individuals who get on the phone with you that we should blaming, and we should be sanctioning because how dare they mistreat ***student*** loan borrowers when they've got them on the phones.

And so, I--you know, I'm just kind of mystified by this approach to the problem. Mr. Delisle, what is the relationship between the Department of--Mr. Delisle, what is the relationship between the Department of Education and ***student*** loan servicing companies?

DELISLE: So, it's a contract. The Department of Education hires them on contract to basically run the entire federal ***student*** loan program, according to the terms that are spelled out in law.

ROSE: And what is the process by which the terms and conditions of those contracts of loan servicing are set?

DELISLE: So, it's the standard government contracting process. The Department takes bids and--and--and has an amount of money that Congress determines how much it can pay for these contracts and using that amount of money spells out what the servicers should do.

ROSE: And who sets the terms of the loans, such as the interest rate and the loan terms that the borrowers borrow under?

DELISLE: Congress does. They're set in statute.

ROSE: Do you think the majority of borrowers are aware that Congress sets those terms?

DELISLE: It's hard to say. There are certainly some who--who are unaware of that, who--in fact, the only entity they're interacting with is their servicer. So, I think it's reasonable, although incorrect, for them to blame the servicer when they're--when they're frustrated with this process. It's the only entity they're interacting with, but as you can see in my testimony, I give a lot of examples where the servicer's just doing what they're supposed to do, and it looks like a scam to the borrower.

ROSE: And a servicer's role is to ensure that the borrowers are acting according to their repayment plan or to suggest a better option. It is the duty of the servicer to inform the borrower of all of his or her repayment deferral and forbearance options. What is the process for choosing a new plan?

DELISLE: So, a--a borrower is entitled to choose any plan for which they're eligible, pretty much whenever they want. They can get the information from the Department of Education's website. They can get the information from the servicer, who will send them forms, and they can decide which one they want to use. They can ask the servicer about the options. Servicers generally aren't in the position of telling you which one is best for you.

That's a really difficult kind of calculation to make. I'm an expert in this. I would have a hard time determining what--what the ideal option is for every borrower in every circumstance.

ROSE: Is there any connection between the compensation structure for the companies' employees, the servicers' employees, and the repayment plan that the borrower chooses?

DELISLE: It's mostly based on are you in good standing, are you in forbearance, or are you delinquent. The--my understanding is the contract is--is less about which plan you choose. It's more about whether or not you're in good standing on the loan.

ROSE: Thank you. I yield back.

WATERS: The gentlewoman from Michigan, Ms. Tlaib, is recognized for five minutes.

TLAIB: Thank you so much, Madam Chair. I sincerely appreciate this conversation, especially because my district, the 13th Congressional District are called 13 District Strong is the third poorest congressional district in the country, and it is very dangerous when we start blaming borrowers unfairly when the system is really set up against them and set up for complete failure. 52 percent increase in tuition, just college debt in Michigan from 2007 to 2017, just putting that on there.

What's really hard in these conversations is we forget about the human impact, and I think Mr. Frotman you were trying to put that forward and so have you been Ms.--Ms. Harrington. You've been trying to put that forward as something that ***needs*** to be in this room because doing nothing has consequences on real people's lives. In (INAUDIBLE) township, a resident in my district came up to me, and he said he's so concerned about what's happening with his college debt. He's in his late 40s, and he wants to buy a home. And he can't because of college debt.

Another young woman who just graduated from law school said, "I ***don't*** want to go into the court. I want to do free legal pro bono work." And she said desperately like, what can we do because I hear all these horror stories about people doing the forgiveness loan program if you do public service for 10 years. And she just saw a number that 99 percent of those applicants were being denied. Again, these are teachers. These are public servants. These are people that are giving back to the community that raised them.

And one of the things that we keep forgetting is, you know, these aren't people buying Ferraris and--I mean, this is an education. These are not, you know, fur coats, which I would prevent people. I've asked them not to buy those, but I'm saying that these are not luxury items, and one of the most successful anti-poverty programs in this country is education. And so, we have to continue to try to put the human face on this issue and--and not try to get so much in the technicality of it because I feel like when we do do that, because there are these different solutions to this, that we can get far away from actually saying that there is a crisis here.

And Madam Chair, I do, if I may later on--I plan on submitting for the record letters from real people, not lobbyists, directly impacted by this crisis.

WATERS: Without objection, such is the order.

TLAIB: Thank you. We saw in the mortgage crisis that doing nothing had consequences, and all of a sudden, our residents and our families were getting preyed on. And that's what's happening with college debt right now, and you know, today, you cannot go on Facebook without seeing one of these ads. You cannot listen to a radio without hearing some sort of pitch. You cannot go for 48 hours without getting a robocall or a text message congratulating you on the opportunity of a lifetime to help you with your college debt, right.

And we have companies like Pennsylvania Higher Education Assistance Agency already being paid hundreds of millions of dollars to service these loans and help borrowers, but all of a sudden, these folks are coming and--you know, a lot of my colleagues will call them businesses. I'm going to call them scams. They're scam artists. They're scams, period. We cannot deter from the fact that they are trying to prey on the most vulnerable because, guess what, we made them very vulnerable because we're doing nothing about this crisis.

Mr. Frotman, do you think the reason that these loan--***student*** loan debt relief scams are so prolific, you know, I mean just increases, because servicers are failing to get borrowers the help they ***need***?

FROTMAN: Absolutely. I think one of the downstream consequences of the widespread abuses and mismanagement by ***student*** loan servicers is just this abundance of scams, of companies willing to prey on the most vulnerable borrowers and steal their last dollar.

TLAIB: And--and then Mr. Frotman, you know, Facebook, Google, Bing, Yahoo, and others have allowed these con artists, scams, to use their advertising platforms and search engines to target struggling borrowers. To what extent do you have concerns that these search engines are in large part responsible for profiting off of the abuses of ***student*** loan borrowers and making this crisis worse?

FROTMAN: So, it is without question that companies like Facebook and other technology companies are making a whole lot of money on ads by scammers, of people preying on ***student*** loan borrowers, and I think this is--to go back to a prior question. The building's on fire. The building's on fire now, and there's things that the committee could do to help constituents--your constituents across the country. And this is what's happening. This--to your point, this is the human face of people getting ripped off.

TLAIB: And the--to what extent--and when you think of that list of legislation before us, what extent do you think that we can be doing here to protect them because it is going to be hard to get some of my colleagues and really on both sides of the aisle to really try to handle this--this crisis because doing nothing again for so long, this is what you have before us. For me, I--you know, I'm a mom, and so, I'm--I'm trying to--even if band-aids ***don't*** work, I'm trying to stop the bleeding right now.

And now, I have so many of my residents falling into the trap are trying to refinance and do all these things, and by the way, Mr. Delisle, you know, you keep saying that it's not--I mean, if it looks like a scam and it acts like a scam, it's a scam, but one of the things that is really distraught is--and I'm so sorry, Madam Chair. I can submit my questions later, but I really want to ask you what we can do in regards to these platforms and how we can protect our residents from scams like this.

WATERS: The gentleman from Wisconsin, Mr. Steil, is recognized for five minutes.

STEIL: Thank you, Madam Chair. I appreciate you calling today's hearing to highlight what's a really serious issue. We have a $1.5 trillion ***student*** loan problem, and today's hearing, though, I think digs into a false premises to where the problem is. The problem is in the underlying cost of the education product in the first place that's driving ***students*** into debt. Misdirection works really well in comedy. It's not terribly effective at actually solving what is a very serious problem.

When I was on the University of Wisconsin Board of Regents, what we did to address the ***student*** debt issue is we actually froze the cost of tuition, froze it dollar-for-dollar, and that allowed the cost of tuition to become more affordable for ***students*** in the state of Wisconsin. It had a direct impact on the total ***student*** loans that ***students*** were taking out and actually allowed ***students*** to come out with less debt than if they would if we just casually increased the cost of tuition.

It's a real solution to a real problem. We see states go around and sue big, bad corporations because we can't legislate and get the cost under control of the underlying product in the first place, you litigate. If you can't legislate, you litigate. And what we ***need*** to do is actually have a real, honest conversation about what the underlying cost of the product is that's driving ***students*** into debt in the first place, and so, if you kind of think through just our panelists here today, I'd ask you at your alma mater, which is I think where we started off at the very beginning of this hearing, what the underlying cost of tuition is.

So Mr. Frotman, at the University of Michigan, do you know what the in-state tuition is for a ***student***?

FROTMAN: It's $15,000. If you're out-of-state, it's $51,000.

STEIL: Ms. Yu, at Holyoke College, do you know what the cost of tuition is? It's $52,000, $52,000. Ms. Harrington, at UNC Chapel Hill, do you know what in-state tuition? It's actually pretty darn good. It's less than $9,000. That's solid work by the University of North Carolina and the University of North Carolina system that's getting that done. Mr. Minhaj, do you know what the cost of in-state tuition is currently at UC Davis?

MINHAJ: Go, Aggies. Yes, so, '03-'04, my freshman year.

STEIL: No, no, no. Today, today.

MINHAJ: So today, it's $14,490.

STEIL: Boom. Do you know what the out-of-state tuition is?

MINHAJ: Do I get points for that?

STEIL: Bonus points, absolutely.

MINHAJ: Thank you.

STEIL: Do you know what the out-of-state tuition is?

MINHAJ: I ***don't*** know what the out-of-state tuition is.

STEIL: It's $44,000. I think it's relevant.

MINHAJ: I ***don't*** think--I ***don't*** think that's worth it, though, if you're out-of-state. I think you just--I think you--

STEIL: --So, we're going--I only--I only got so much time--

MINHAJ: --I think you do what I do and you just stay at home. You call it--

STEIL: --I only got so much time--

MINHAJ: --You invest (INAUDIBLE) and you just call it--

STEIL: --So, and Mr.--Mr. Delisle, Mr. Delisle, do you know what the cost of tuition is at Lawrence University?

DELISLE: For a poor ***student***, I believe it's zero.

STEIL: And do you know what the cost would be--what's--what's the sticker price, which is--

DELISLE: --I ***don't***. Well, for a really high-income ***student***--

STEIL: --So, sticker price--

DELISLE: --I hope it's really high. $50,000?

STEIL: It's--it's--it's $49,000.

DELISLE: If they're high income? Good.

STEIL: And--and so--so--so, there's a disparity between sticker price--you identify a good point there. There's a significant disparity between sticker price and the cost that ***students*** are paying, but the published rates that are the most easy to obtain and what--what's causing a problem for access for ***students*** is the sticker price.

DELISLE: Normally, high-income people pay those sticker prices.

STEIL: Absolutely, absolutely. The University of Wisconsin Madison, if you're below the median income in the state of Wisconsin, tuition and fees is $0, not $1, $0. It's covered between a combination of the federal government, between the state, and between private donors. That actually addresses the underlying cost of the product in the first place, and so, where we're having a lot of misdirection into the processors because there's big, bad companies--I'm not telling you that they're perfect.

I'm telling you it's a misdirection to try to find a boogieman for what's the underlying problem, and the underlying problem is the folks that are running these universities, whether or not they're state legislators, state senators, governors, board of regents, they ***need*** to come in and address the underlying problem, which is the rising cost of tuition and fees, let alone as you get into--into housing and other issues. And so, what we did in Wisconsin was actually put forth a real program that addressed the problem, driving down the underlying cost of tuition, brings down the debt level.

It's darn effective, and in areas where states continue to see their costs going up, where they can't legislate or they can't put in policies in place that actually helps ***students*** be able to live out the American dream, we litigate. We sue all these companies. We misdirect. We make a bunch of noise. It's not effective. It's pretty darn frustrating, and I yield back the remainder of my time.

WATERS: Thank you, Mr. Steil. The gentleman from Illinois, Mr. Casten, is recognized for five minutes.

CASTEN: Thank you, Madam Chair. Thank you so much to our panel. Mr. Minhaj, you mentioned in your initial comments that the median income is up 3 percent over the last 33 years. I think you are far too optimistic. Census data came out with information this week that the median income last year was $63,000. That is exactly the same as it was in 1999. To the extent it's up over 33 years, that was a creature of the 90s. It ain't true anymore.

Now during that period, as many have noted, tuition's up over 100 percent. Cost of housing is up 34 percent. The price of a gallon of milk is up 30 percent. We have $1.5 trillion worth of debt. My colleagues across the aisle last term blew a $1.5 trillion hole in the economy so that we can remove the pain of the ultra-wealthy have, so they ***don't*** have to decide between their milk and their college tuition. The nation's 1 percent thank you.

Meanwhile, we still have this problem, and while we--while there are a whole lot of issues beyond the jurisdiction of this committee that are underlying that--and of course, we'll look into all that. I think we have created a fiction that markets our perfectly efficient, and there is no emotion in decision-making, and therefore, the entire marketing industry must be a sham. But we do have--we do have distortions in the system.

The 2005 Bankruptcy Bill says that you cannot discharge your debt in bankruptcy if it is debt associated with a ***student*** loan program. You can discharge your credit card debt. You can discharge your--your mortgage debt. You can discharge all kinds of other debts. Ms. Yu, can you talk about how that affects the underwriting process? If you know that underwriting a loan in a world where the median income is not keeping up with tuition growth, it's never--effectively never going to default.

YU: So, I think that is driving a lot of the abuses that we see in the--in the private loan market because we know that borrowers are not going to get out from under their debt. So, you know, low-income ***students*** are struggling to make payments, and lenders have no incentive to provide them with more flexible repayment options because they're going to be on the hook most likely for the rest, you know--

CASTEN: So when Mr. Delisle made the comment that essentially we're not doing underwriting for ***student*** loans, is it safe to say that the underwriting process has been distorted by the 2005 Bankruptcy Bill?

YU: I think that's right.

CASTEN: Okay.

DELISLE: I was speaking about the federal ***student*** loan program, not private loans.

CASTEN: I--fair enough. There are distortions in the system. I'll get to you in just a moment, Mr. Delisle. There's a--there's a separate narrative going on, and we've--we've heard it across this panel. And we've been talking about this for years, that if you subsidize the cost of a loan, you will distort economic efficiency. If you give people access to--to debt that exceeds their ability to repay, they're going to make unwise financial decisions. And that has a certain--it sounds logical.

We all took Freshman Economics, and--and yet, as Raj Chetty has pointed out in his sort of magisterial work on wealth and income and equality, the single best predictor that you are going to find yourself in the top quartile of income in your peak earning years is whether your parents were in the peak quartile of income when you were born. Some of us were so smart that we chose our parents wisely. Some of us were too dumb to do that.

If it is the case that the access to an affordable education distorts your rationality--it makes you more prone to do foolish things. It makes you more prone to enter into careers that ***don't*** generate a useful income. If affordable education is so distorting, why are the children of the ultra-wealthy so darned irrational? Mr. Delisle, you described yourself as a capitalist. Why is it that the ultra-wealthy ***don't*** enter into lines of work that ***don't*** pay them an income?

DELISLE: I'm--I'm not sure that that's necessarily the case, so I--

CASTEN: --No, quite to the contrary. The best predictor that you're going to be in the top quartile of income, not wealth, although wealth is also true--top quartile of income is that your parents were born that way. So, we--we do not see data that people who have access to zero-cost loans that never have to repay them, that get total loan forbearance--we see no evidence that those people are going into foolish lines of work. Why are they so irrational?

DELISLE: Well, we--we do see--we see evidence, right, that they're actually--they--they are doing quite well, which is why I think it's such a waste of money to forgive their loans, which is actually the current policy.

CASTEN: I am asking a different question. People who if you do not have to have a loan at all, the reason why you ***don't*** have to have a loan at all is because your parents were so wealthy. I'm not talking about whether or not those families chose to take out loans they could afford to repay. Why isn't Donald Trump, Jr., working in a shoe store as a philosophy major writing poetry?

DELISLE: So, I think the data show, since we'll talk about data and evidence here--the data show that high-income families take out ***student*** loans.

CASTEN: I'm not--that is not the question I've asked.

DELISLE: You said, why ***don't*** they, and I'm saying, they do--

CASTEN: --I am asking why people who do not have the ***need*** to take out loans violate your theories of economics that assume everybody is rational.

DELISLE: I ***don't*** assume everybody's rational.

CASTEN: Thank you. I yield back.

WATERS: The gentleman from Wisconsin, Mr. Duffy, is recognized for five minutes.

DUFFY: Thank you, Madam Chair. As a father who has his kids now going through school, I got to tell you, the ***student*** loan system is jacked. It's a--it's a horrible system, and I think what it does is if you're poor you get great subsidies and--and college is more affordable, and if you're wealthy, you know, you have parents who will help you pay--I think the middle--the middle class gets crushed in the way that this system works. That's just my personal opinion from going through the process.

Would you--would the panel agree that probably the smarter the kid, the better school they get into and maybe the less smart the child, the not-so-great school they get into? Is that--does--do you guys agree with that? No?

HARRINGTON: I ***don't*** agree with that, given the history of racial injustices of the country and the fact that we have disparities across K-12 schools that are concentrated in low-income neighborhoods, neighborhoods of color, and we haven't adequately prepared our ***students***, and so, the smartness level, which is usually measured by grade point average or SATs or things like that are inherently biased. And so, they ***don't***--they ***don't*** determine who is smarter. They determine who had wealthier parents who could put--who could put them in certain schools and give them access to certain programs.

YU: And even the data with those SAT programs show there's also a mismatch between ***students*** who have--who have the ability to go into higher schools, but then ***don't*** for other reasons.

DUFFY: Great points. But, the higher the SAT and the higher the GPA, the better school, the lower the GPA, and the lower the SAT--the lower rung schools. Is that a fair assessment whether that's--intelligence or smartness--I think you make a good point. Is that fair enough?

YU: So, like I said there is--

DUFFY: --if--if you have a 20 ACT, you're probably not going to Harvard--

MINHAJ: --or if your mom's Aunt Becky you can just pay your way into USC--

DUFFY: --Mr.--

MINHAJ: --what are we talking about here?

DUFFY: Hold on a second.

MINHAJ: What are we talking about here?

DUFFY: But--what--I--

MINHAJ: --you and I were both former MTV stars, you get it--

DUFFY: --let me tell you--

MINHAJ: --I was the star of MTV's Disaster Date Season five. You know what it's like. We can't afford--

DUFFY: --Mr. Minhaj--

MINHAJ: --that MTV check--

DUFFY: --I'm going to reclaim my time.

MINHAJ: Ok.

DUFFY: I know you think it's a joke.

MINHAJ: It's not a joke.

DUFFY: But you think it is. And you want to come in here and make light of a serious situation. So, I ***don't*** think it's funny. So, you can sit here and--and do your film and make people laugh while we're trying to have a serious conversation. And I only have five minutes. So--leave it alone.

MINHAJ: Ok.

DUFFY: My point is, we do have a problem. And I agree with my colleagues is that the problem belongs with the cost of education. Ok? And if you're going to let me go to your school and you're going to charge me $50,000 or $60,000 a year and give me a degree that I can't make a living to pay the loans back. What skin in the game does the school have for letting me in, charging me the money, giving the debt, and I can't pay it back? Who pays? Does the school pay?

Mr. Frotman?

FROTMAN: No. I think--

DUFFY: --and should they? Should they have skin in the game?

FROTMAN: So, I'm actually happy that you're trying to talk about solutions. I think this is important--

DUFFY: --should they have skin in the game?

FROTMAN: I think that--

DUFFY: --should we call back some of that money?

FROTMAN: I think there ***needs*** to be more--

DUFFY: --you got to hurry up. I only got a minute and a half. Should we call money back from the schools? If you gave me a degree that I can't pay back my loans, why should the taxpayers, why should--

HARRINGTON: --there actually were a couple of rules that would have ensured that the worst performing schools would have had to return some of that money--

DUFFY: --would you agree with that Ms. Harrington--

HARRINGTON: --the borrower defense to repayment rule and the gainful employment rule, which this department--

DUFFY: --should we call money back from the schools to--

HARRINGTON: --we should hold schools accountable--

DUFFY: --thank you--

HARRINGTON: --especially the worst actors, for profit schools. It's not about calling money back, it's about holding schools accountable for the fact that they have low quality programs that cost a lot of money--

DUFFY: --this problem exists from--

HARRINGTON: --that target ***students*** of color, veterans--

DUFFY: --whether you're going to the best schools, the medium schools--

HARRINGTON: --are marginalized.

DUFFY: It's my time. Listen, all schools have this problem. And so we should call money back from all the schools that give kids degrees with high debt and they can't pay it back, number one. Number two, I think we should look at the endowments. I mean, you have billions of dollars in endowments and we're talking about what giving loan forgiveness to all ***students***--so I--University of Wisconsin, Marathon County, $5,000 a year to go there two years, then you can go to the University of Wisconsin, Madison for $18,000 a year. That's a really smart choice. Those are kids making really smart decisions for their financial future, versus the kid that goes to Dartmouth and pays $58,000 a year. So, why should those who became of a union welder and went to a union welding school, or the kid that went to UWMC, pay for the kid that went to Dartmouth, and has the pathway of Dartmouth?

That's fundamentally unfair if you set up a system where you have kids getting great degrees and making big money, and we the taxpayers, or we the union members, are going to pay back their school. That's insane. And I yield back, Madam Chair. You gaveled me down.

WATERS: The gentlewoman from Massachusetts, Ms. Pressley, is recognized for five minutes.

PRESSLEY: I just want to say I'm very disturbed as we perpetuate the fiction that we live in meritocracy. And that people advance based simply on acumen, when we are in the midst of quite literally some very high-profile people who their children's SAT scores fixed. And things like that have going on by the powerful and the few for a very long time. Ok.

So, I want to say thank you Chairwoman Waters for your continued leadership, for making sure that this committee stays focused on those issues of care and consequence to the American people. I especially appreciate the frame and the titling of this hearing. Several months ago, when Director Kraninger of CFPB was before this committee, I asked her whether or not we were in the midst of a crisis, and I could not get her on the record to even characterize ***student*** loan debt as a crisis, when in fact it is. When we talk about the chokehold of this debt, and I've just spent six weeks in district, in the Massachusetts 7th, hearing from families who are struggling to put food on the table, to pay the rent, to take care of aging parents, to pay for childcare. What does all this mean ultimately? It means that people are alive, but not living. This debt is not just choking at our ability to build wealth or our purchasing power, it is quite literally choking people.

We had a hearing at Oversight and Reform on trauma. And we learned that suicides are on the rise for many reasons. And one of those reasons is debt despair. So, this is choking at the promise of our country, and quite literally we are losing lives because of the debt folks are burdened by. So, it is a crisis. And for those across the aisle that perhaps think that we are being dramatic, you cannot overstate a $1.6 trillion in debt, crushing close to 45 million borrowers. You can not describe that as anything less than a crisis. So, I thank the chairwoman for her leadership. And for those across the aisle, the question whether or not this committee is germane to this issue when you overlay this with discriminatory policies like redlining. And then, Ms. Harrington shares with us that 90 percent of defaults are disproportionately bore by ***students*** of color. There's no way that there is not an interconnectedness and intersectionality from homelessness to housing, to many of the issues that this committee tackles. And so, this is exactly what we should addresses as a committee.

The facts of this crisis, and again, it is a crisis, requires no exaggeration. We are not past the point of just paying attention, its time to act. Madam Chairwoman, I'd like to ask unanimous consent to include a statement from the ***Student*** Debt Crisis, a nonprofit organization dedicated to combating this crisis.

WATERS: Without objection, such as you order.

PRESSLEY: Thank you.

Mr. Frotman, you led the team at the CFPB whose sole responsibility was to watch out for all ***student*** loan borrowers and younger consumers. What were some of the trends that you and your team noticed?

FROTMAN: So, unfortunately what we see just like we saw in the mortgage context, was when servicers fail it hits the most vulnerable borrowers the most. And in the ***student*** loan context, these are borrowers of color. So, we see now even holding constant income, degree obtainment, African American borrowers have double digit rates of default. And with that in mind, the bureau announced that we were going to be looking at whether or not ***student*** loan servicers and ***student*** loan companies were in compliance with the nation's fair lending laws.

PRESSLEY: During your time there did the CFPB begin to look into potential discrimination in the ***student*** loan servicing industry in violation of the civil rights laws, including the Equal Credit Opportunity Act?

FROTMAN: So, in the April of 2017 the CFPB announced that it would be prioritizing in our supervision work, whether or not ***student*** loan companies were complying with the laws, the nation's Fair Lending law. In particular, whether or not borrowers based on their race were more likely to have difficulty getting into a repayment plan.

PRESSLEY: Ok. And to your knowledge has the bureau continued to look into these issues?

FROTMAN: Unfortunately not, based on your own conversation with the Director Kraninger, it appears as if the bureau has just dropped this work.

PRESSLEY: Thank you.

Madam Chairwoman, I'd like to request unanimous consent to include a letter from civil rights organizations, including the NAACP, and the Leadership Conference of Civil and Human Rights, urging the CFPB to look into racial disparities in ***student*** loan outcomes. And potential discrimination in loan servicing market.

WATERS: Without objection, such as you order.

PRESSLEY: Mr. Frotman, our friends across the aisle have mentioned that ***student*** loan servicers are supposedly not incentivized as to steer borrowers towards forbearance, and they are not financially incentivized to give borrowers poor or outright incorrect advice. Yet, and audit released by the DOE in February of this year found that more 60 percent of the department's oversight report contained examples of servicers acting improperly. If our friends across the aisle are correct and loan servicers are not incentivized to make mistakes, and give poor advice, then why is this consistently happening?

FROTMAN: Because they're wrong. Because they are incentivized to give bad advice. They're incentivized to get their call reps off the phone as quick as possible, which we see across the industry, leading to the outcomes we have today.

PRESSLEY: Thank you.

WATERS: The gentlewoman from Virginia, Ms. Wexton, is recognized for five minutes.

WEXTON: Thank you, Madam Chair for yielding. And thank you to the panelists for coming and sticking with us throughout this very long committee.

I want to speak for a moment about the Public Service Forgiveness Program, because this is something that's very important to a lot of my constituents. As you know, this program was intended to reward borrowers for public service. And the deal was spend 10 years in public service as teacher, a nurse, a police officer, somebody working in qualified nonprofit, making 120 monthly payments against your ***student*** loans and the government would forgive what's left. Now, obviously it's not working out that way. We have evidence that 99 percent of those people who applied for forgiveness were rejected over what most of us would view as technicalities and things that should not be.

So, Ms. Harrington, can you speak a little bit to the problems with the program? And in particular the role of Fed Loan which administers the program for the Department of Education.

HARRINGTON: Absolutely. There are definite improvements that could be made to any of the programs the department administers and oversees, right? But again it goes back to whether service--whether ***students*** have access to the plans. And whether servicers are putting them in the right--giving them the right information to make sure they are properly enrolled, that they are making the right payments, and that they are proceeding according to the requirements of the law so that they can receive that relief. And most of that information, again, comes through their servicer, who they rely on to make sure they are in good standing.

WEXTON: And they didn't get that information on the front end, most of them, is that correct?

HARRINGTON: It's a big problem, yes.

WEXTON: Ok. Now, I guess with regard to, I would ask Ms. Harrington, do you know who Kathleen Smith(SP) is?

HARRINGTON: Yes.

WEXTON: Who is Kathleen Smith?

HARRINGTON: She is senior administrator to the Department of Education.

WEXTON: She was. But did she know that she's been hired by the Pennsylvania Higher Education Assistance Agency?

HARRINGTON: I had forgotten. But, yes, I did know that.

WEXTON: Ok. So, now she's their head of director of Federal Relations--

HARRINGTON: --yes--

WEXTON: --is that correct?

HARRINGTON: Yes.

WEXTON: So she's now a lobbyist for that private entity.

HARRINGTON: Yes.

WEXTON: In fact, Fed Loan is the subsidiary of the PHEEA--

HARRINGTON: --yes--

WEXTON: --that administer this faulty program, is that correct?

HARRINGTON: Yes.

WEXTON: Ok. And how about Robert Cameron? Do you know who that is?

HARRINGTON: Yes.

WEXTON: Who's that?

HARRINGTON: He is the new ***Student*** Loan Ombudsman at the CFPB.

WEXTON: Where was he before becoming the new ***Student*** Loan--

HARRINGTON: --he was also at FIA.

WEXTON: Ok. And so now he's overseeing consumer ***protection***. Can you talk just very, very briefly about some of the things the Department of Education has--and the CFPB have done to stymie state attempts to hold ***student*** loan servicers accountable?

HARRINGTON: Absolutely. So, the department has revoked a few memorandums that would have shared information with the CFPB and other agencies. They have attempted to preempt state enforcement and regulation of ***student*** loan servicers, trying to curtail the states--already the state's ability to enforce consumer ***protections*** and protect their own citizens. The CFPB under this Administration got rid of the Office of ***Students***. And now it is hired, again, as you said, a person with direct ties to one of the loan servicing companies. And so there's a major problem. And that's just the tip of the iceberg for action the Department has taken that kind of undermine our confidence that are working to achieve their mission of supporting ***students*** and providing access to high quality education. And that the CFPB is assuming its mission of protecting consumers, which ***student*** loan borrowers are.

WEXTON: And are you aware FIA's one year $1.3 billion contract expires in December of this year?

HARRINGTON: Yes.

WEXTON: So, the Department of Education and the CFPB have made it harder for states to go after bad actors. They have--they have put a former executive from one of the bad actors in charge of enforcing consumer ***protection***, right?

HARRINGTON: Yes.

WEXTON: And now, a former top DeVos aid, has gone into public--or into government relations with that bad actor. Is that correct?

HARRINGTON: Yes.

WEXTON: Thank you, Madam Chair. I'll yield back. But that sounds pretty swampy to me.

WATERS: The gentleman from Ohio, Mr. Gonzalez, is recognized for five minutes.

ANTHONY GONZALEZ: Thank you, Madam Chair.

First, I want to submit for the record, Federal Reserve Bank of New York staff report, entitled, The Credit Supply and The Rise of College Tuition, Evidence from The Expansion of Federal ***Student*** Aid Programs.

WATERS: Without objection, such as you order.

ANTHONY GONZALEZ: Thank you.

So, I guess one good thing about this hearing is that there does seem to be almost universal agreement that the effects massive debt on young professional's balance sheets has horrible effect on their ability to one, start families, two , buy homes. Basically, to get started in the American Dream. I have a constituent who I talk to a lot about this, as she went to my alma mater for law school, took up a bunch of ***student*** loans. And her and her husband are making real trade-offs on can we afford to have another child, can we afford to buy a home. And I think her story is indicative of stories all over the country. Again, somebody who did everything right, who continues to do everything right, but just can't quite get out from under the crushing debt.

One interesting thing though, is we seem to be focusing on what I think is just a weird play--like the very end of the spectrum, the very final stage, which is the loan servicer. Whereas, all these other things happen in advance that lead to higher tuition, that lead to the fact that we can't refinance these loans. And so, for some reason we're focusing here, I guess it's the only part that we have jurisdiction over. But it strikes me as just a strange place.

So, to summarize Mr. Delisle, just quickly, again, and I know this has been said a lot, no underwriting standards?

DELISLE: Right. That's right.

ANTHONY GONZALEZ: Ok. Federal government is essentially guaranteeing the loans?

DELISLE: They're making them, directly.

ANTHONY GONZALEZ: And then all of this that we're talking about, fully controlled by Congress?

DELISLE: That's right.

ANTHONY GONZALEZ: Ok. So, clearly a problem that we have created. I want to focus on the rising tuition costs, which is why I submitted this for the record.

Mr. Delisle, are you familiar with the study that I just mentioned?

DELISLE: Yes.

ANTHONY GONZALEZ: Ok. So, correct me if I'm wrong, the premise of the study, or the conclusion of the study is as the federal government has taken over these loans, as they've increased caps, that has in fact resulted in skyrocketing tuition?

DELISLE: Right. That's right. So, more lending, higher tuition. That's the finding of that paper.

ANTHONY GONZALEZ: Right. So, the fact that we've gotten into this industry hasn't done a thing about the cost of tuition. All it has essentially done has transferred the debt over to the ***student***.

DELISLE: I would say though that the tricky part with those analyses is that we know that ***student*** loans allow more people to go to school.

ANTHONY GONZALEZ: Right.

DELISLE: So, it raises tuition, but more people can go. And we know that when people get loans versus people who ***don't***, they tend to finish, and they tend to get better grades. So, there's been a lot of complaining about ***student*** debt here, but sort of fundamentally, it is a sound policy.

ANTHONY GONZALEZ: Yeah, well, I mean that get into the ROI, right? Like a big investment is ok if there's a real ROI there. And you know, you're right we haven't talked much about that.

But I want to ask you specifically about an area that I know you research, which is income share agreements.

DELISLE: Yeah.

ANTHONY GONZALEZ: So, the thing I find interesting or that I like about them is that it sort of shifts the risk, right? So, instead of the ***student*** taking out the debt, now the university or the institution is taking out the debt if you will and saying we will provide this education up front, provided you pay us x, y, z, over time. I guess from your research, my question would be where have you seen this work best? Like as we're legislating or thinking about it, what should we be thinking about in terms of these are best practices that are doing well by ***students*** and the universities?

DELISLE: I think you have it right and it gets to what Congressman Duffy was talking about, is that sort of the beauty of income share agreement, where it is being done right, is when the school is making it.

ANTHONY GONZALEZ: Right.

DELISLE: When the school makes it, now the school has risk. They've got the skin in the game. And the great part is, you know, we talked about you know, sort of free tuition. An income share agreement is a way to not charge ***students*** tuition, give them an income share agreement. And they only have to pay it back if it works.

ANTHONY GONZALEZ: Right. If it works, and then you build in certain ***protections*** which like I know, like Perdue University has done. And I think again, the beauty of that, you graduate you have no debt. You have a liability to pay the income, right? But, in fact when it comes to borrowing for other things, whether that's a house, car, whatever, what is currently on people's balance sheets is now moved off.

Great. Well, with that, I will yield back.

WATERS: The gentlewoman from North Carolina, Ms. Adams, is recognized for five minutes.

ADAMS: Thank you, Chairwoman Waters. Thank you for convening the hearing today, and to the witnesses, thank you very much for your testimony.

As a former educator and somebody who educated primarily first generation, low income ***students*** of color, this is a very personal issue for me. ***Student*** debt's a problem for all young people, but particularly low-income ***students*** who are predominately people of color who look at a higher education degree as their ticket into the middle class. And that's the promise that we make to our young people. And so, as members of Congress we ***need*** to start keeping our promises.

Ms. Harrington, thanks for appearing before the committee. I want to thank you for your work on the centers report detailing the ***student*** debt crisis in my home state of North Carolina. The report shows that of the 44 million Americans who hold $1.5 trillion in ***student*** loan debt, 1.2 million of those live in North Carolina holding a debt tab of about $44 billion. You'll hear my friends on the side of the aisle blame the Obama Administration's elimination of the Federal Education Loan Program as the cause for ***student*** debt crisis. But, can you explain what the centers report show that are the key causes of the dramatic increase in the debt in North Carolina?

HARRINGTON: Sorry. Our report shows that there's a number of key causes, right? Yes, tuition has risen, but there's been a drastic disinvestment at the state level in higher education. The purchasing of the power--the purchasing power of the Pell Grant has been drastically reduced. I think we should remember that the federal loan program was never meant to be the cornerstone of the AGA. It was meant to be the Pell Grant. It was meant to be actual grants, not loans. But we never allowed the Pell Grant to keep up with the cost of college and to keep up with the proportion that it should have covered from the beginning.

It's the rise of for-profit colleges that again, have disproportionately targeted low-income ***students*** and ***students*** of color with programs that are low quality and high cost. And ***students*** are more likely to drop out of those programs. There's a completion crisis. And this is particularly concerning. Again, in North Carolina where we have a number of alternate institutions that serve ***students*** of color and low-income ***students*** much better, namely our historically black colleges and universities.

ADAMS: Alright. Thank you. I'm HBCU strong.

So, you detail in your testimony that ***students*** of color are the most at risk due to ballooning ***student*** loan debt. In the report you also mention how North Carolina HBCUs do well in educating African American ***students*** with limited resources. First of all, what impact does has a high ***student*** debt burden for young people of color have on HBCUs?

HARRINGTON: So, we seen that across the board the ***student*** debt levels of HBCU graduates are higher. And that's because they've disproportionately served more low-income ***students*** and ***students*** of color. Over 70 percent of ***students*** at HBCUs are low income. Over 80 percent are African-American. And so, the biggest indicator of whether you're going to take out a ***student*** loan and how much, is your Pell Grant eligibility. And so by disproportionately serving these ***students***, but serving them well, they are taking on ***students*** have to take on more debt. And so, on the back end, it takes ***students*** of color, particularly African-American ***students***, longer--more debt and longer to pay it back. And they are more likely to default even when they have a degree.

ADAMS: So, what impact does it have on alumni giving?

HARRINGTON: It has an impact on the amount that ***students*** have on available resources to give back to their school. And so, I think we can--and this corresponds to the wealth gap in higher education as a whole, right? So, if you already are serving low income ***students*** who will continue to be low income because of the way the system is set up, they often have lesser--fewer resources to give back. We have HBCUs on average, have much lower endowments than larger institutions. That also contributes to the fact that ***students*** have to take on more debt, and these institutions continue to struggle unnecessarily.

ADAMS: Ok. So, I'm running out of time, but can HBCUs actually be a part of the solution to decreasing the ***student*** debt burden, in your opinion?

HARRINGTON: Absolutely. And there is much we can do to better fund these institutions to make sure that they become a cornerstone of the way we address ***student*** debt and the way we address higher education in this country.

ADAMS: Alright. Great. Thank you, Madam Chairwoman. I'm just about out of time, I'll yield back.

WATERS: Thank you, very much. The gentleman from New Jersey, Mr. Gottheimer, is recognized for five minutes.

GOTTHEIMER: Thank you, Madam Chairwoman. And thank you all for being here today. We're all grateful.

The Federal Reserve recently published a new report about home ownership, which found that roughly 20 percent of the decline in home ownership among young adults can be attributed to the hefty increase of ***student*** loan debt. This is felt particularly hard in my home state of New Jersey. According to a 2018 study, 61 percent of 2017 college graduates in New Jersey graduated with ***student*** loan debt. Concurrently, a recent census data shows that the number of homeowners under 35 years old in New Jersey decreased from 7.7 percent in 2007 to 2016, and 47 percent in 18 to 34-year old's in New Jersey are living with their parents. The highest in the country. Home ownership can be an incredibly--an incredible way, as you know to achieve the American Dream. And I'm worried that not enough households are building wealth through home ownership due to increasing ***student*** loan debt.

Mr. Frotman, if you I can start with you, sir. One idea put forth by the committee is to direct the Department of Housing and Urban Development to work with the Consumer Financial ***Protection*** Bureau, and the Federal Housing Finance Agency to review the barriers to home ownership for borrowers with ***student*** loan debt, and make recommendations for policy changes that will responsibly to reduce or eliminate hurdles. What do you think are some of the biggest barriers that HUD, CFPB, and FHA should immediately address?

FROTMAN: So, I think one of the issues that I've seen is the back-end credit reporting system. Where borrowers are getting their payments reported to a credit reporting agency and its all over the map. And then when lenders go to try to figure DGI calculations, they're also unnecessarily hamstringing borrowers. So, I think this is a perfect example of how this is this committee's job, right? I think there's an opportunity to reduce barriers that are being put in place because of these back-end problems. And think, as you mentioned, I think this bill is a good start.

GOTTHEIMER: Ms. Yu, you're nodding. Do you agree with that?

YU: Yes. I mean, one of the issues is, is exactly how do we consider negatively amortizing loans when we're looking at housing, for example. And borrowers have the right to an income repayment plan, but then how's the housing market looking at that in terms of the borrower can afford.

GOTTHEIMER: Thank you very much.

According to the CFPB, 71 percent of ***student*** loan complaints between August 2016 and September 2017 involve complications dealing with the lender or servicer as we've heard about today. Servicer admissions or misrepresentations of information related to the servicing of a loan are increasingly common, as you've all pointed out. Earlier this year, the Inspector General for the Department of Education reported that between 2015 and 2017, federal ***student*** aid found instances of servicer representatives failing to adequately inform struggling borrowers about their available repayment options, which is very frustrating obviously if you're not even presenting all the options.

Ms. Yu, I'll ask you this question. How do you think creating clear rules of the road prevent ***student*** loan servicers from omitting or misrepresenting loan serving information benefits to ***student*** loan borrowers?

YU: Well, so, a couple different ways. First of all, as the Borrower Bill proposes, we want to make sure that borrowers are informed income repayment options prior to forbearance. Even if a forbearance is ultimately the best decision. We ***need*** to make sure they're getting those options first. We also ***need*** dispute resolutions. Part of the problem is that borrowers are frustrated because things are going wrong. Paperwork is getting lost and they ***don't*** have a single source, a single point of contact to try to resolve those errors.

GOTTHEIMER: Thank you. I hope I have time for one more here.

Some academics who work closely on the issue of ***student*** loans argue that there's not only a ***student*** loan debt crisis, but also a ***student*** loan repayment crisis. And you know, by forcing ***students*** to start paying back their loans, right after graduation, we're sitting our graduates up for failure. You know, a 10-year repayment plan is the most common ***student*** loan repayment plan. But it usually takes several years at least after graduation to reach a point where degree is paying financial dividends.

Ms. Harrington, if I can ask this question to you, has the Center for Responsible Lending put any thought into potential solutions to this repayment crisis?

HARRINGTON: Absolutely. We recently released a report with several civil rights groups where we talk about ways to improve the income driven repayment system. How to streamline into one plan, how to lower the--how to decrease the repayment term to 15 years rather than 20 or 25 years, to base the payments off of 8 percent of discretionary income instead of 250 percent above the poverty line rather 100 percent above the poverty line. These are all important reforms that make it actually affordable for borrowers to pay back their loans and do other things like buy homes, start business, and save for retirement.

GOTTHEIMER: Thank you so much. Thank you all for being here. I yield back. Thank you.

WATERS: Thank you very much. The gentlewoman from Iowa, Ms. Axne, is recognized for five minutes.

AXNE: Thank you, chairwoman. And thank you also for the witnesses for being here today, we appreciate it.

Just yesterday I heard from Liz, she's a teacher in Urbandale in my district, about the issues that she's had with her loan servicer. In 2007, Liz began teaching, and of course, that's when the Public Service Loan Forgiveness Program began. So, she called her servicer to see what she ***needed*** to do to be eligible and was told she didn't ***need*** to worry about the paperwork yet and wouldn't be eligible for another about 10 years or so. And so send in the verification forms when it gets a little bit closer to that date. Then when she followed up closer to that date, five years later, she actually tried to get on top of that by calling another five years. She followed up to make sure she was eligible. She was told her loans were now ineligible for the PSLF because they had been serviced by other loan entities, unbeknownst to her.

I want to right here, tell you a little bit about what she said. Liz further said that she was told there was nothing that could be done and that very few of her payments qualified. And then she said for a while, I thought I was the only one in that situation. I never grew up from money, I came from a single-family household, I remember being so cold in the winter and going hungry. Nothing in my life was easy, so I figured this was just one more thing to add my long list of unfair things to happen to me. But, put your head down, work harder, work longer, and somehow maybe you'll come out just a little bit ahead.

So, I thank you all for being here. Because this is truly impacting peoples lives as we've discussed. And Mr. Minhaj, since you recently did a story on this and you pointed out in your opening testimony that the borrower does not control who their servicer is. Does this story that I'm hearing from Liz sound familiar to anything that you heard when you were researching your show?

MINHAJ: Yes.

AXNE: Can you tell me another story, briefly, that you may have heard that's similar?

MINHAJ: It was--it was--I can't say the names of the loan service provider that they were switched to, but its very similar to that. Its very similar to the story that you mentioned where because of misinformation and they were told the wrong information, they were led down a path that was not beneficial to them in the long term.

AXNE: Yeah. Thank you.

And I'd ask any of you, because Liz has contacted me, and I ***don't*** know what to do to help Liz at this point. And I'd ask any of you for this teacher of 13 years, who literally never had a late payment, what can be done now to help her?

FROTMAN: I think unfortunately we hear these stories all the time. And I think we've heard about consumer ***protection*** being a smokescreen or a distraction. This is the problem, is that borrowers are reaching out to private sector companies and they're getting lied to. We've seen the nation's largest teacher's union sue Navient for the exact practice that you were talking about. So, these companies have to follow the law. Just being an Education Department contractor doesn't mean you get to have a free ride in this country. You have to follow federal law and state law. And I think that borrower has rights. But I think there's more that this committee to could to make sure that this doesn't happen again.

AXNE: So, we've all heard, and I know this was discussed earlier, that more than 99 percent of PSLF applications are now being rejected despite Congress explicitly expanding the program last year. And as discussed, President Trump just appointed Robert Cameron, who worked for an at profit ***student*** loan servicer to serve as the ***Student*** Loan Ombudsman.

Mr. Minhaj, does this seem like an administration that's putting private companies ahead of the interests of its borrowers?

MINHAJ: I just think it's terrifying that the head of the predatory loan servicing company is in charge of this thing that's supposed to protect you.

AXNE: Moving on, I'd like to address another issue that we're facing, and Mr. Frotman, you brought this up earlier. I'm encouraged about the fact that we're having this discussion on both sides of the aisle. But Americans now owe more than $1.6 trillion in ***student*** loan debt. And I think there are two ways that this debt impacts the overall economy, explicitly. You mentioned many, but housing and entrepreneurship, and I wanted to get into housing real briefly here. Do you feel, Mr. Frotman, that ***student*** loan debt is keeping borrowers from buying homes?

FROTMAN: Absolutely.

AXNE: Thank you.

One estimate found that at least 400,000 less Americans own homes because of this ***student*** loan debt. Does that sound reasonable?

FROTMAN: That's correct.

AXNE: Ok.

And this is exactly why I joined my colleagues, Ms. Kapter(SP) and Mr. Clay(SP) to introduce the Transform ***Student*** Debt Into Home Equity Act. It's a legislation that creates a pathway for college graduates to purchase a home and then roll that loan into a lower interest home mortgage rate. I'm also encouraged, of course, by the discussion draft we're considering in this hearing to instruct federal regulators to study the barriers to home ownership that ***student*** loan is creating.

Ms. Yu, do you think these two bills will help ***students*** make the transition to home ownership?

YU: I think it's incredibly encouraging that we're talking about how to make home ownership more available to ***student*** loan borrowers.

AXNE: Ok. Thank you so much.

WATERS: The gentlewoman from Pennsylvania, Ms. Dean, is recognized for five minutes.

DEAN: Thank you, Madam Chairman. I appreciate the chance to talk about this really important subject. I come at it through the lens of a mother and grandmother. Also, I was 10 years as a university professor in Philadelphia at La Salle University before I got into public service. So, I met with ***students*** regularly who were worried about or being closed out of their own education based on debt, and the interest on that debt.

And I worry about the chilling effect that has on ***students*** coming up. I met with ***students*** at my area high school, Norristown Area High School, shortly after I was sworn in this year. And they're bright, they're engaged, they're inquisitive. And I asked them what are you doing next, you're seniors? What are you doing next? And many of them said, I cannot imagine taking on burdensome debt that college would require. I see my own parents, some of them said, I see my own parents still struggling with their ***student*** debt.

So, I heard some conversation about what is the foundation of the American Dream? My parents taught me, and I believe it for my own children, the foundation of an American Dream is an education. That's where it all begins. Because with that education, one that we can afford, that our children and our grandchildren can afford, that's how we come fully engaged members of the economy. And so many of you have so aptly described how we have saddled young people with debt that they cannot fully engage in our economy.

Ms. Yu, I wanted to talk to you. Early on in my tenure, we had a constituent come in our office. Her daughter had burdensome ***student*** loans, became permanently disabled. The mother is now the full-time caregiver. And the ***student*** loan that they had, was with a private lender. And while they daughter is forgiven from her debt, the mother as the cosigner, is not. So, now she has the full time economic and emotional responsibility of caregiving. So, I've introduced legislation that I think you've talked about, which would require private loan disability discharge. Can you talk about that and the inequities in the private loan system?

YU:

Yeah, absolutely. So, private loan cancellation programs are absolutely at the discretion of the lender. Some private lenders offer discharge programs, others ***don't***. There's no standard, there's no clear standard between lenders, and even within lenders, sometimes there is disparities between one loan program or the other.

One of the first ***student*** loan borrowers that I ever worked with, when I was a legal aid attorney, was totally and permanently disabled due to complications with breast cancer. Her federal loans were fully discharged because she qualified for that loan program. And her private lender actually had a press release saying that they were, that they had a disability discharge program available for private loans. But we went to apply for it for this borrower, they were only willing to offer her to waive the interest. They weren't willing to waive any of the principal, which for her, she was totally and permanently disabled, she couldn't work, she was living on social security, didn't make a dent for her.

DEAN: So, requiring private lenders to mirror the federal requirement, which is discharge in the case or permanent disability. Do you think that's the right way to go?

YU:

I think, absolutely.

DEAN: Thank you.

I have another bill that would end forced arbitration, the pre agreement that would arbitrate a dispute that has not yet appeared. Can any of you talk to me about how that would be helpful to our borrowers?

FROTMAN: So, sometimes we overlook the private ***student*** loan market because it's only 7 percent or 8 percent. But, 7 percent or 8 percent of $1.6 trillion is a whole lot of money. And there's a whole lot of borrowers who are getting ripped off in this market. So, we've seen private ***student*** loans make loans they knowingly are going to fail, literally 65 percent default rates. You see predatory practices from for profit schools who private ***student*** loan programs. And each of these instances, these borrowers were ripped off and they can't access a courtroom to try to seek justice. And I think is a considerable step, this committee took this step, with regard to certain mortgages in terms of banning forced arbitration. And I think it makes a ton sense in the private ***student*** loan market as well.

DEAN: And just quickly, if I could follow up with you. Can you describe some of the practices in terms of lack of repayment options that you had described with the private lenders?

FROTMAN: So, in many ways a private ***student*** loan is just straight 10-year amortized loan. And despite what you hear about industry talking points about, you know, charge off rates. There are a lot of private ***student*** loan borrowers who are really struggling. The delinquency rates are much higher than what they advertise. What we saw in the complaints is that people take on this debt in the path of a better life then something happens. They have a special ***needs*** child or become totally and permanently disabled, a spouse loses a job. And they're really stuck. And we've seen time and time again, borrowers aren't getting repayment options. They're trying to pay something. And a lot of this goes back, again, to the lack of ***protections*** in bankruptcy.

DEAN: Thank you, Madam Chairman. Thank you, sir.

WATERS: The gentlewoman from Texas, Ms. Garcia, is recognized for five minutes.

SYLVIA GARCIA: Thank you, Madam Chair. And thank you for holding this hearing. It was quite astonishing to hear from you when you uttered the words that this was the first time, we've had a hearing on this in the Congress. I mean, it is just--I mean it just baffles that we've not really done anything to really wrestle with this problem. And quite frankly, after listening to all the questions and listening to the testimony, you know, I think we're all to blame. I think we're all to blame and it's time for us to take action.

So, my question to all the panel members, is whether we did a repeal and replace, we just get rid of the whole darn thing and start all over with a white board, what is the first thing that you would want to put on the white board? And let's keep it short because we've only got give minutes and there's five of you. So, you each have a minute each.

FROTMAN: So, I think that the ***Student*** Loan Borrower Bill of Rights is where I would start. It's simply taking the ***protections*** that exist for other borrowers and making sure ***student*** loan borrowers have them. That shouldn't be controversial.

SYLVIA GARCIA: Borrowers rights. Alright. Ms. Yu?

YU:

I think you ***need*** to target services to the most vulnerable borrowers and then make sure that they're protected if they have to take on debt.

SYLVIA GARCIA: Vulnerable borrowers, based on what ability to pay, income status, what?

YU: I mean, I think income status. I think, you know, race and gender, we see that borrowers of color, women, veterans, they have to take on more debt to go to school, and I think we ***need*** to make sure that we have education available to all of our ***students***.

SYLVIA GARCIA: Ok. Ms. Harrington?

HARRINGTON: I agree with the ***Student*** Loan Borrower Bill of Rights targeting services to the most vulnerable, including low income people and people of color. I think we also have to make sure that both federal agencies and state agencies have the ability to enforce these rights, as well as ***students*** have the ability to enforce their own rights and protect themselves.

SYLVIA GARCIA: Ok. Mr. Minhaj?

MINHAJ: I agree with everything they've said. I think it'd be great if we could just go tools clear history on everyone's debt. And I also think we should have a digital clock in here. I think that's a bipartisan position we can all agree on.

(LAUGHTER)

SYLVIA GARCIA: I'm sorry--

MINHAJ: --because I ***don't*** what time it is right now.

(LAUGHTER)

For a second, I thought it was 7:10 and I started freaking out.

(LAUGHTER)

SYLVIA GARCIA: Does it say 7:10?

MINHAJ: Well, it was the long--so if you follow the shorthand, technically its 1:40.

SYLVIA GARCIA: Alright. We'll order a Mickey Mouse clock next time.

(LAUGHTER)

MINHAJ: Thank you so much.

SYLVIA GARCIA: Thank you.

DELISLE: I actually have a paper where I've laid out a complete redesign of the federal ***student*** loan program. It is published by the Manhattan Institute. I would convert the whole thing to an income share agreement, where you pay back 1 percent of your income for every $10,000 you borrow. And you can pay it back on your income taxes. I think this would dramatically simplify the program. I would cap the amount people could borrow at $50,000. But--

SYLVIA GARCIA: --you would put a cap at $50,000?

DELISLE: $50,000.

SYLVIA GARCIA: Have you seen tuition rates around the country?

DELISLE: I've heard from the members of this committee is that people are being crushed by their debt. So, I think best way to solve the problem is to limit how much they can take out.

SYLVIA GARCIA: Do you know much my law school cost me?

DELISLE: Sure. But, people who--law school is a good bet, right? Most people should be able to get loans in the private market. If it's a good bet. If it's a bad bet, they won't get loans. I think--

SYLVIA GARCIA: --well, I think I'm always a good bet--

DELISLE: --would be better off.

SYLVIA GARCIA: So, what else did you say now? You said the income sharing thing.

DELISLE: So, you pay back 1 percent of your income for every $10,000 that you used in the program. So, if you used $30,000, you would be signing to pay 3 percent of your income, on your income taxes for a set period of time. So, we ***don't*** have all the different options. In fact, the amazing part about this plan is, if you pay the loans on your taxes, you get rid of loan servicers, they're gone.

SYLVIA GARCIA: Well, I think it's about time that we go ahead and start just rethinking the whole thing. And Ms. Harrington, one thing I would want to make sure, when we're talking about vulnerable populations. You talked a little bit about the disparity treatment, if you will, or the impact on African-American communities. Is there any--is the number differently for Latino community, Asian community? How are we faring in all of this?

HARRINGTON: There are definitely a number of issues across our various communities. Latinos ***students*** struggle with the fact that they have higher rates of non-completion, which then makes it harder for them to pay back their loans. And they do have higher default rates than their white counterparts.

We've also seen a high rate of ***student*** debt for the Native American populations. Women tend to take out more ***student*** loan debt and take longer to pay it back. And that also goes back to the income gap and how we pay folks. We still have disproportionate impact on older borrowers now, who are receiving social security benefits offset.

SYLVIA GARCIA: Is it any different--is there a difference between community college debt, you know, junior college, two-year schools versus a four-year university?

HARRINGTON: Yes. But what's really driving the default is really the for-profit college industry and their issues. And also, our--the lack of consumer ***protections*** at the servicing level.

SYLVIA GARCIA: Thank you, Madam Chair. I yield back.

WATERS: The gentlewoman from New York, Ms. Ocasio-Cortez is recognized for five minutes.

OCASIO-CORTEZ: Thank you, Madam Chairwoman. And thank you to all of our witnesses here today. It's been a very long hearing. Some with specious claims, I would add.

But it's also been a very hard and long hearing for anyone who has ***student*** loan debt. I literally made a ***student*** loan payment while I was sitting here at this chair. And I looked at balance and it is $20,237.16. And I just made a payment that put me down to $19,000, so I feel really accomplished right now.

But the thing is we saw two main arguments from Republican side, over and over again. One is this idea that this issues not to germane to the committee, that ***student*** loans are not germane to the Financial Services Committee. And it seems completely ridiculous, right? That loans are somehow--you know, this is not our job. And I look at all of the things that are going on right here, and just article after article. Sure there are some aspects that are not our job. Like one, what certainly seems like a very large amount of corruption coming out the Department of Education, but also in conjunction with the Consumer Financial ***Protection*** Bureau.

I have an article right here from the Washington Post, Education Department awards debt collection contract to company with ties to Betsy DeVos. Another one, ***Student*** Loan Behemoth tightens its ties to Trump and Betsy DeVos, the company that rejected all but 1 percent of public--popular federal ***student*** loan forgiveness. It's beefing its already close ties. A third, Inside Investigations at--Inside the Education Departments effort to obstruct ***student*** loan investigations. What could they be obstructing? What investigations could they be obstructing?

Well, in 2009, Sally Mae CEO said, "If a borrower can create condensation on a mirror, they ***need*** to get a loan this year in order to put their subprime lending in place.". Navient, forwarded wrong information to credit reporting agencies saying that permanently disabled veterans had defaulted on their loans when they haven't. Then you have ITT Credit Union issuing and using financial aid staff to rush ***students*** through an automated application process when they knew that they had projected default rates as high as 64 percent. Is that correct, Ms. Yu?

YU:

Yes, it's right.

OCASIO-CORTEZ: They knew that they were issuing loans that they knew had a default rate of 64 percent?

YU:

Yes.

OCCASION-CORTEZ: So, they were sitting people up to fail?

YU:

They were.

OCASIO-CORTEZ: And I'm hearing people on this committee saying, it's not our job. This is our job.

Mr. Delisle, you are the Republican or minority witness, and we appreciate that you're here testifying at the Republicans request. One of the things, the other argument that they say is that this is Obama's fault, #Obama, it's Congress' fault, Congressional Democrats. One of the things that they say it that's the Congressional Democrats fault, and that in ending the Federal Family Education Program and moving to the Direct Loan Program, that it's our fault that we're creating the $1.6 trillion in ***student*** loan debt. Do you agree with those claims?

DELISLE: Well, I think the terms of the loans for borrowers are identical under both programs.

OCASIO-CORTEZ: So, that's a no?

DELISLE: So, I ***don't*** think we'll know. But borrowers were eligible for identical amounts of debt--

OCASIO-CORTEZ: --ok, well, Mr. Delisle, it seems like you knew February 2007 in your report called, Private in Name Only, where you stated, even in the executive summary that, "Critics that also assert that the complete switch to the Direct Loan Program in 2010 led to a record level of outstanding ***student*** debt and defaults, a claim with no causal basis." You went on again to emphasize that quote, "Perhaps the most outrageous of all are the claims that the Direct Loan Program is to blame for record levels of outstanding ***student*** debt and a spike in ***student*** loan defaults.".

I'll ask you again, is it unfair to characterize the 2010 policy changes leading directly to the record $1.6 trillion in debt?

DELISLE: It wouldn't make sense that they caused the increase in debt.

OCASIO-CORTEZ: Thank you, very much, Mr. Delisle. I appreciate that.

And you know, with just a few seconds left, does anyone else have any closing commentary that they weren't able to get anything in today?

Alright. Thank you very much.

WATERS: Thank you. The gentleman from Texas, Mr. Green, who is also the Chair for the Subcommittee on Oversight and Investigations, is recognized for five minutes.

GREEN: Thank you, Madam Chair. I am especially thankful that you approved our having the oversight hearing in Houston, Texas. I'd like to report that it was well attended. Many members had other places to be and I well understand, but I do want to thank Ms. Tlaib, Mr. Cleaver, Mr. Meeks, and Ms. Garcia for being in attendance.

I am a little bit concerned about persons who believe that you can somehow pass a skin test. We just left the Visitors Center where we were commemorating some 400 years since the first slaves arrived here. And many persons talked about the vestiges of racism, invidious discrimination, slavery, lawful segregation. And how it impacts us today. At one time, as you well know, black people were not allowed to learn, not allowed to get an education. So, we have a system now that requires people to do things that they can do, great strides have been made, but there's still invidious discrimination. It exists. And unfortunately, we ***don't*** like to acknowledge it, but it does.

I'll give you one example that doesn't relate to education, but when Kareem, also known as Lou Alsinda(SP), was accepted into UCLA. They changed the rules. They outlawed docking the ball, because they didn't want to see this black man score all of these points. Is it true? They changed the rules. The rules changed for us all the time, but we learned to live with it. We've literally accepted it, unfortunately for us.

So, I'm saying to you, there is still a skin test, and it can fail even our best. We find ourselves sending tax dollars to schools we can't get into. But they benefit from our tax dollars. Very unfortunate. So, today, I hear people complaining about why are we having this hearing. Let me just share one piece of information, intelligence that the staff has accorded me. And the staff does great work, great work.

This piece of intelligence read, borrowers first become eligible for loan forgiveness under PSLF in September 2017, 10 years after the program began. As of April 2018, the Department of Education had approved only 55 of 19,321 applications. Some things bear repeating, 55 of 19,321 applications for loan forgiveness under PSLF, or 0.0028 percent. That's reason enough. This number alone justifies some sort intervention. You cannot justify 0.0028 percent. We have to do something.

I'm concerned about persons who get degrees and can't pay their loans back. But I'm also concerned about people who ***don't*** degrees and can't pay the loans back. If you get a degree, look, I'm concerned about, please ***don't*** misunderstand, but you're more likely probably in my world, to be able to pay it back than the person who doesn't have the degree, who can't get bankruptcy, who's going to have to live with this and work with this throughout life sometimes.

So, quickly, if someone could just tell me this. There's some debate about whether or not persons who ***don't*** have degrees qualify for the forgiveness program. There's some opinion that the law doesn't specifically allow it. If you think the law does allow persons who do not have degrees to participate in the forgiveness program, please raise your hand, I'd just like to get a quick survey. If you think the law does allow it.

Ok. All, but--well, maybe you ***don't*** know sir.

MINHAJ: I ***don't*** know the answer.

GREEN: Ok. That's good enough. Well, look I'm very much concerned about those who ***don't*** get the degrees.

Thank you, Madam Chair. I'll yield back.

WATERS: Thank you very much.

I'd like to thank all of our distinguished witnesses for their testimony today. Without objection all members will have five legislative days within which to submit additional written questions for the witnesses to the chair, which will be forwarded to the witnesses for their response. I ask our witnesses to please respond as promptly as you are able. Without objection, all members will have five legislative days within which to submit extraneous materials to the chair for inclusion in the record.

This hearing is adjourned.

Thank you.

Classification

Language: ENGLISH

Subject: US DEMOCRATIC PARTY (89%); US REPUBLICAN PARTY (88%)

Industry: BANKING & FINANCE (72%)

Person: JOYCE BEATTY (79%); FRENCH HILL (79%); ALEXANDRIA OCASIO-CORTEZ (79%); ALFRED LAWSON (79%); ALMA ADAMS (79%); RASHIDA TLAIB (79%); DENNY HECK (79%); LEE ZELDIN (79%); JUAN VARGAS (79%); ROGER WILLIAMS (79%); BARRY LOUDERMILK (79%); BILL FOSTER (79%); BILL POSEY (79%); ALEX MOONEY (79%); BRAD SHERMAN (79%); PETER T KING (79%); MADELEINE DEAN (79%); SEAN CASTEN (79%); DAVID SCOTT (79%); DEAN PHILLIPS (79%); SYLVIA GARCIA (78%); ANN WAGNER (77%); TOM EMMER (73%); RAHM EMANUEL (72%); AL GREEN (72%); VICENTE GONZALEZ (71%); KATIE PORTER (57%); BARNEY FRANK (57%); BLAINE LUETKEMEYER (57%); CAROLYN MALONEY (57%); CHARLES A GONZALEZ (57%); ED PERLMUTTER (57%); EMANUEL CLEAVER (57%); FRANK D LUCAS (57%); GREGORY W MEEKS (57%); JIM HIMES (57%); MAXINE WATERS (57%); NYDIA VELAZQUEZ (57%); PATRICK T MCHENRY (57%); STEPHEN F LYNCH (57%); WILLIAM LACY CLAY JR (57%); STEVE STIVERS (56%); BILL HUIZENGA (56%); SEAN DUFFY (56%); SCOTT TIPTON (56%); JOSH GOTTHEIMER (55%); CINDY AXNE (54%); BEN MCADAMS (54%); JENNIFER WEXTON (53%); TULSI GABBARD (50%); ANDY BARR (50%)

Geographic: TEXAS, USA (90%); COLORADO, USA (87%); IOWA, USA (79%); KENTUCKY, USA (75%); VIRGINIA, USA (54%); HAWAII, USA (53%)

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