
Comment Call (13-07)

To: All Affiliated Credit Union CEOs

From: Kieran Marion – Vice President Governmental Affairs
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Date: March 20, 2013

RE: CFPB – Initiative to Promote Student Loan Affordability

Summary

Based on the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd Frank Act) the Consumer Financial Protection Bureau (CFPB) is reaching out to the credit union industry and other financial service providers to identify opportunities to spur refinance and modification activity in the private student loan market. This Comment Call seeks information in order to provide more detailed information on ways to encourage the development of more affordable loan repayment mechanisms for private student loan borrowers.

In summary, your comments are being sought to determine options that would increase the availability of affordable payment plans for borrowers with existing private student loans.

Comments on the proposal must be received by *April 8, 2013*.

Request for Information

The CFPB seeks information on options to increase the level of affordable repayment options for both pre-default and post-default borrowers in distress who wish to repay their loans but may be lacking in near-term ability to service their obligation. Feel free to comment on any of the questions outlined below. To review the CFPB's request for information, click [here](#).

Definitions

Loan Modifications – (for purposes of this request) refers to a restructuring of a debt obligation agreed to by the creditor and debtor where the creditor agrees to a concession.

Private Education Loan – as defined by Regulation Z, means an extension of credit that:

- i. Is not made, insured, or guaranteed under title IV of the Higher Education Act of 1965;
- ii. Is extended to a consumer expressly, in whole or in part, for postsecondary educational expenses, regardless of whether the loan is provided by the educational institution that the student attends;
- iii. Does not include open end credit or any loan that is secured by real property or a dwelling; and
- iv. Does not include an extension of credit in which the covered educational institution is the creditor if:
 - a. The term of the extension of credit is 90 days or less; or
 - b. An interest rate will not be applied to the credit balance and the term of the extension of credit is one year or less, even if the credit is payable in more than four installments.

Scope of Borrower Hardship

1. What are the primary drivers of private student loan borrower distress?
 - a. What characteristics might predict distress at loan origination?
 - b. What characteristics might predict distress for borrowers who complete a program of study?
 - c. What characteristics might predict distress during repayment?
2. How do borrowers seek to reduce payments on federal student loans in order to make payments on private student loans?
 - a. Do borrowers seek to reduce payments on federal student loans in order to make payments on private student loans?
 - b. To what extent do borrowers in distress accrue other debt (credit cards, family loans) to meet private student loan obligations?
 - c. To what extent do borrowers in distress forego “other nonessential expenses” to meet private student loan obligations?

Current Options for Borrowers with Hardship

3. What options currently exist for borrowers to permanently or temporarily lower monthly payments on private student loan obligations? To what extent have these affordable repayment options cured delinquencies?
4. How do lenders typically evaluate whether or not a borrower qualifies for these affordable repayment options? If lenders make use of financial models, what are the key drivers of these models?
5. Do lenders work directly with co-signers to modify terms? If so, how?
6. What is the incidence or expectation of re-default rates among restructured private student loans?

Past and Existing Loan Modification Programs for Other Types of Debt

7. What are some examples of loan modification programs sponsored by a public entity or the private sector that have been successful? Which features of these programs might be applicable to a student loan affordability program? Which features of these programs might not be appropriate for a student loan affordability program?

Servicing Infrastructure

8. Is the servicing infrastructure utilized by major lenders flexible enough to process loan modifications at scale? What are the limitations of these servicing platforms? Are those limitations capable of being overcome? What are estimated costs of overcoming those limitations?
9. What are the key differences between servicing of student loans compared to servicing of residential mortgages that must be considered when crafting an affordability program?

Consumer Reporting and Credit Scoring

10. How are payment plans for defaulted private and federal student loans currently reported to consumer reporting agencies? How are rehabilitated federal student loans reported by consumer reporting agencies, and how does that reporting affect credit scores?

Lender Participation

11. How might an affordability program sponsored by a public entity mitigate moral hazard and selection bias?

Borrower Awareness

12. What are some examples of modification or refinance initiatives that successfully made borrowers aware of a new program? Which features of these programs are applicable in the private student loan market?

13. What are the most effective communication mechanisms to reach borrowers in distress?

Spillovers

- 14. How do student loan payments impact access to mortgage credit? How does student debt impact a consumer's ability to accumulate a down payment? How does student debt impact a consumer's ability to meet debt-to-income requirements for FHA-insured and private sector mortgages?
- 15. To what extent does student loan debt impact the market for automobiles? How does student loan debt impact a consumer's ability to secure an auto loan?
- 16. What evidence exists about the impact of student loan debt on consumption, savings, homeownership, household formation, entrepreneurship, and other indicators of economic health?

Conclusion

The questions presented are extensive; however, feel free to comment generally and/or respond to any or all of the questions provided.

Comment Letters

Please submit a Comment Letter to:

Monica Jackson
Office of the Executive Secretary
Bureau of Consumer Financial Protection
1700 G Street, NW
Washington, DC 20552

Electronically: <http://www.regulations.gov> Identify your comments with Docket No. CFPB-2013-0004 and follow the instructions for submitting comments.

Please submit to the MCUL a copy of your response to the attention of:

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We Appreciate Your Response.