



**VIA ELECTRONIC MAIL**

April 8, 2013

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**RE: Request for Information Regarding an Initiative to Promote Student Loan  
Affordability (CFPB Docket No. CFPB-2013-0004)**

To the CFPB:

The National Foundation for Credit Counseling (“NFCC”) provides these comments in response to the CFPB’s request for information regarding the promotion of student loan affordability.

The NFCC writes to emphasize that key to assisting consumers with their student loans is the delivery of independent, holistic financial education, and coupling that education with enhanced loan modification options. This requires increased funding to enable educational organizations to reach out to student loan borrowers, as well as new programs that deliver for student loans the types of modifications that are already available for other unsecured debt. Paring these two elements together could spur widespread relief for student loan borrowers. But they require further support from the CFPB and its sister agencies.

**I. Holistic financial education delivers results for consumers.**

The NFCC’s vision is “to create a national culture of financial responsibility.” Its core mission is to support and promote a national agenda for financially responsible behavior and to build capacity for its members to deliver the highest quality financial education and counseling services. The NFCC accomplishes this mission through investments in outreach campaigns; developing educational and counseling training programs, materials, standards, and best practices; advocating on behalf of consumers for better credit solutions; and obtaining federal and private grant funding to support financial counseling.

The NFCC's Member Agencies make up the nation's largest and longest-serving network of non-profit credit and financial education counseling agencies. Our 88 Member Agencies operate from over 800 offices, with more than 2,000 certified counselors serving consumers in communities across the country. NFCC Member Agencies are often known as Consumer Credit Counseling Services, and all are 501(c)(3), not-for-profit organizations. In the past two years, NFCC Member Agencies have provided counseling, education, and related services to more than 5 million consumers in an effort to help them manage their debts and take control of their finances.

NFCC-certified counselors take a holistic view of clients' finances and assist them to address all types of debt. Our Members' counselors work alongside each client – without regard for the client's financial condition or ability to pay – to bring their finances into focus, construct a budget and action plan to tackle their debt, and provide assistance as needed to reach their financial goals.

Student loan borrowers typically confront debt on multiple fronts. The most recent report from the Federal Reserve Bank of New York<sup>1</sup> offers the following stark conclusions about student debt:

- Nearly 70% of student loan borrowers have a balance of less than \$25,000, while 4% have a balance over \$100,000.
- 6.7 million borrowers are 90 or more days delinquent on their student debt.
- Delinquency of student debt repayment is highly correlated with delinquency of other debt repayment, such as mortgages, auto loans, and credit cards.

The NFCC's network of counselors routinely assists consumers to address their debt, including student loan debt. NFCC-certified counselors help student loan borrowers identify opportunities to take advantage of existing loan repayment modification options, such as federal income-based programs. When those modification options are limited or not available, there is still more the NFCC's Members can do. The NFCC's holistic approach places consumers on more solid footing across their financial portfolio – better-managed budgets and potential reductions in other debt can free up funds consumers can allocate towards their student loans. Independent studies have concluded the NFCC's holistic methodology improves consumers' financial posture and reduces debt loads and defaults.

## **II. More Outreach is Needed**

The NFCC strives to educate borrowers about ways to manage their debt, but we need more support to connect with the nearly 7 million consumers who are significantly behind on their student debt payments.

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<sup>1</sup> Available at <http://www.newyorkfed.org/newsevents/mediaadvisory/2013/Lee022813.pdf>.

Our experience shows that consumers with student debt very often are not aware of their total debt obligation or the applicable interest rates. They typically are focused on their monthly payment obligations and, more problematically, believe they have few, if any, options to tackle their student debt. There is a common misunderstanding – perhaps fomented by the commonly known bankruptcy restrictions – that they have no ability to reduce their payments or otherwise modify their student loans.

The NFCC strives to clarify these misperceptions for consumers. The NFCC has conducted many large-scale, national awareness campaigns promoting financial literacy and education, and we currently are planning a new campaign we hope will reach millions of consumers. Some of our Member Agencies also have conducted targeted outreach campaigns to help student loan borrowers learn they may have options to better afford their payments.

Of course, the same holistic education would best serve student loan borrowers before they are at risk of default. But pre-borrowing education supported by the Department of Education is currently being performed by institutions of higher learning predominantly through for-profit companies focused solely on educating borrowers on the terms of their student debt. That system is plainly not accomplishing the goal of ensuring consumers understand their financial options when it comes to student loans, or how those loans fit into the borrowers' greater financial picture.

The NFCC and our Members therefore need additional resources to achieve the outreach necessary to assist student loan borrowers. We simply do not currently have the resources to reach these individuals and connect them with the counseling resources they may benefit from. We are aware of no funding sources – federal or private – directed at reaching this population. The Department of Education has expressed it has no funds to invest in this area. By contrast, there is funding available from HUD and many private lenders and servicers to support outreach to consumers facing housing debt challenges, as well as funding to support the delivery of counseling to those consumers.

The NFCC therefore recommends the CFPB, the Department of Education, and other federal agencies take advantage of the ability of organizations like the NFCC to connect with consumers. Federal funding to support outreach and education targeted at student loan borrowers could drastically change the landscape of student debt, allowing more borrowers to seek the assistance that can change their financial lives and bring their finances in focus. Of course, we also believe private, student-loan lenders and servicers should be encouraged to support independent outreach efforts, and there may be opportunities for the CFPB and other agencies to call for such private support. We can reach these consumers and assist them to get their finances back under control. But we need more support to accomplish that goal.

### **III. Creating Opportunities for Loan Modification**

The NFCC has extensive experience assisting consumers to modify their loans, and there are lessons to be learned for student loans. As the CFPB appears to recognize, a primary obstacle to addressing student loan debt is creating options for refinancing and other loan

modifications. In particular, while federal loans often offer modified payment plans based on income or hardship, those modifications are limited, and private loans typically do not offer them at all. One option to address this would be to allow borrowers to refinance their private student loans into federal loans.

Another option that would not place further burden on federal budgets would be to enable consumers to modify their loans – both public and private (which are predominantly owned by Sallie Mae) – based on their level of need. NFCC-certified counselors have extensive experience assisting borrowers with this type of consumer-driven opportunity, whether by working with consumers to modify their unsecured debt through negotiations with creditors, or by assisting homeowners to take advantage of home loan modification opportunities.

Of particular interest to the CFPB may be enabling student loan borrowers who are at risk of default to “reset” and simplify their credit card debt. For more than fifty years, the NFCC and its Members have negotiated on behalf of consumers to reduce monthly unsecured debt payments and receive relief through so-called “Debt Management Plans,” or DMPs. Roughly 30% of consumers who seek counseling from NFCC Members may benefit from a DMP, based on their ability to pay their outstanding debt. To initiate a DMP, a consumer authorizes the credit counseling agency to contact each of the consumer’s unsecured creditors – primarily credit card companies. The counselor then negotiates with each creditor to cease collection efforts and lower the consumer’s monthly payment amount, lower the interest rate, waive any late and over-limit fees, and re-age accounts. All of the consumer’s reduced monthly payments are then “consolidated” into a single payment (not consolidated into a single loan, but a single, reduced payment). The consumer then sends a single payment to the counseling agency, which disburses payments to each of the consumer’s creditors.

In response to the financial crisis, the NFCC successfully advocated in 2009 for an improved DMP system, referred to as the “Call To Action” DMP, or CTA DMP. The CTA program augmented the existing DMP system by ensuring consumers with a reduced ability-to-pay receive commensurate reductions in their monthly payments and annual percentage rates. This program has served hundreds of thousands of consumers, reducing their monthly payments and interest rates, while ensuring their principle amounts are paid off within five years. Plus, this program has demonstrated that improved concessions to consumers result in increased payment consistency and consumer debt-reduction over time. In other words, reducing penalties and interest (even while keeping the principal in place) leads to improved outcomes. Accordingly, the NFCC is currently working with its Members Agencies and many creditors to further improve this system by reducing the time it takes to enroll, in addition to incorporating a more transparent ability-to-pay calculation into the determination of the reductions of monthly payments and increase concessions for those most in need.

Importantly, the DMP, CTA, and the present efforts to enhance these programs all deliver the same outcome: a consumer with less debt and better-managed finances. While the counseling agency may charge the consumer a disclosed, nominal fee (and waive that fee if the client is unable to pay it), every penny of the consumer’s payments to the agency

are disbursed to the consumer's creditors and credited to the consumer's accounts. No consumer who has begun a DMP administered by an NFCC Member Agency has ever left the plan deeper in debt because the plan failed to make payments to creditors on the consumer's behalf. As a result, DMPs, in any of their forms, ultimately benefit all involved. Consumers get their finances under control and receive concessions from their creditors, which may include reduced interest rates, waiver of fees, and forgiveness of overdue payment status. Their credit scores generally also improve as a result, in contrast to many "debt settlement" services that can harm credit scores. Meanwhile, creditors receive all of the principal debt owed by the consumer instead of engaging in costly collection efforts or risking a loss through bankruptcy. In turn, the counseling agency may receive a voluntary contribution from the creditor that covers some of the agency's expenses, salaries, and operational costs.

In light of the currently devastating rate of student loan defaults, implementation of a system akin to DMPs in the student loan sector could produce substantial benefits for all participants. Such a plan could include payments to both private and public loans. Consumers would therefore benefit from being able to make a single payment into a plan that pays off their loans with concessions on the interest rate, penalties, and timing. The NFCC believes using a DMP-like system for student loans would improve borrower payments, reduce defaults, and enable borrowers to solidify their finances over the long-term. At a minimum, this type of modification option would help many borrowers avoid default.

We note our experience with credit card modifications also confirms it will be important to create standards to ensure student loan borrowers are not taken advantage of by predatory actors. The CFPB's recently proposed rule governing student loan servicers may be a good first step in this direction.

#### **IV. Conclusion**

Addressing student loan debt will require sustained investment in outreach and education, along with enhanced opportunities for loan modification. The NFCC is already striving every day to deliver each of these, and we welcome the CFPB's assistance.

Thank you once again for the opportunity to share these comments with the CFPB.

Sincerely,



Susan C. Keating  
Chief Executive Officer  
National Foundation for Credit Counseling, Inc.