Written Testimony of Borrower Advocates
at a Bill Hearing before the
House Economic Matters Committee
on HB 913
"Financial Institutions - Student Financing Companies - Required Registration and Reporting"

FAVORABLE

March 1, 2023

Chair Wilson, Vice Chair Crosby, and Members of the Committee:

The undersigned 6 organizations, representing Maryland student loan borrowers and workers, write in support of HB 913, which, if passed, would create a registry for student lenders in Maryland and would provide the state with much-needed data, with which it can determine whether further regulation is required without unduly burdening industry. Critically, the bill requires no changes to industry's current business practices, and is a reporting bill only.

Overview of the student debt crisis and available data.

Over 846,7000 Maryland residents owe approximately $40 billion in student loan debt.[1] Based on national averages, nearly $4 billion of this is likely private student debt, separate from the federal student loan system. The federal government regularly releases data about its loan portfolios, broken out by state and status, and the terms of those loans are set by Congress. So there is generally good transparency of the federal portfolio.

The private student loan market, on the other hand, has almost no transparency. What we know about this sector is extrapolated from representative consumer credit panel data analyzed by the Federal Reserve, and is not a true snapshot of the state of affairs.

The lenders operating in this market are major banks and prominent non-banks, but also shadier companies that specialize in subprime debt and who often target low-income and majority minority communities. These are the companies that partner with for-profit schools and saddle students with debt to pay for low-quality education that will never land them the job they'll need to repay that debt. It's a vicious but well-documented cycle.[2]

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[1] Student Borrower Protection Center calculation based on data made available by Federal Student Aid, U.S. Dep't of Educ., *Portfolio by Location* (Sept. 30, 2022), https://studentaid.gov/data-center/student/portfolio.
[2] Stacy Cowley & Jessica Silver-Greenberg, *Loans "Designed to Fail": States Say Navient Preyed on Students*, N.Y. Times (Apr. 9, 2017), https://www.nytimes.com/2017/04/09/business/dealbook/states-say-navient-preyed-on-students.html.

Part of the reason there is so little information on the private student loan market is because, unlike the mortgage industry, the student loan industry generally is not subject to student-loan specific regulations, and is treated like any other consumer product, despite the fact that it is the second largest form of household consumer credit after mortgage debt. This is a problem: although we know there is a student debt crisis, no state has accurate data on the complete picture of student loans in their jurisdiction, on what entities are originating these loans, and on these lenders' practices.

States are filling the gaps by creating lender registries.

Several states have started to address this issue, not by licensing these lenders, which is a relatively more involved process with greater cost to both industry and the state, but by requiring these companies to register with the state. With registries, companies must inform the state that they are operating in their jurisdiction and provide some annual reporting.

Maine, Colorado, Illinois, Louisiana, and California have done this, each in slightly different ways, but they are gathering the same information.[3] When paired with the federal information, these states will have a complete and accurate snapshot.

HB 913 is nearly identical to the laws in Maine, Colorado, and Louisiana. If passed, the bill would help the Office of Commissioner of Financial Regulation gather this information from its existing licensees, while requiring non-traditional lenders who are not required to be licensed to register with the Commissioner and to submit the same student loan data. Once implemented, the Commissioner will for the first time have comprehensive, annual data about student lending to share with policymakers. This will improve policy making and identify stand out good actors, as well as outlier bad actors.

Importantly, the bill would cover postsecondary education institutions that extend student loans, which is an example of a non-licensee that would have to register and submit data to the Commissioner, but would not otherwise be subject to the Commissioner's regulatory authority. The federal Consumer Financial Protection Bureau announced last year that it would start to routinely examine schools' lending practices as part of its mission to protect student loan borrowers.[4] To attempt to create a snapshot of the private student loan market in Maryland without these school-lenders would result in an incomplete analysis. For this reason, the bill is

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[3] *See* LD 1645, An Act to Establish Protections for Private Student Loan Borrowers and a Registry for Lenders (Me. 2021), codified at Sec. 1 9-A M.R.S.A. Art. 15; SB21-057, Private Lenders of Student Loans Acts and Practices (Co. 2021), codified at C.R.S. 5-20-201 et seq.; H.B. 2746, Know Before You Owe Private Education Loan Act (Ill. 2021); Cal. Fin. Code § 90010.

[4] Press Release, Consumer Fin. Prot. Bureau, *Consumer Financial Protection Bureau to Examine Colleges' In-House Lending Practices* (Jan. 20, 2022), https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-to-examine-colleges-in-house-lending-practices/.

designed to include these non-traditional lenders, but provides the Commissioner with the flexibility to create alternative registration and data reporting mechanisms for them.

This bill does not require changes to covered lenders' business practices. It merely requires them to provide information about their student lending and loan portfolio to the Commissioner so that policymakers can determine whether any further action is required.

The bill's provisions make common sense. The state has the authority to request this data, and should want to know what is happening in its jurisdiction. We already comprehensively and specifically regulate the mortgage industry, but for some reason until recently student lending has been treated separately and as if it's different. It is not different. It is a financial product with specific characteristics that differ from other consumer products and merit unique data requests.

Conclusion

We urge this committee to vote in favor of HB 913, which will introduce critical transparency to the private student loan market in Maryland.

Sincerely,

Student Borrower Protection Center
CASH Campaign of Maryland
Consumer Reports
Maryland Center for Collegiate Financial Wellness
SEIU Local 500
UFCW Local 400

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