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From: [REDACTED]
Sent: Tuesday, June 23, 2009 2:15 PM
To: negreg09
Subject: Testimony: June 22 in Philadelphia
Attachments: Overborrowing Title IV Loans.doc

Attached are my June 22 comments at the Philadelphia hearing.

[REDACTED]

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Testimony by [REDACTED]

Executive Director, PA Association of Private School Administrators, Harrisburg

OVERBORROWING of TITLE IV LOAN FUNDS

The Problem

Increasingly, students attending Title IV eligible institutions are demanding the maximum amount of student loan money available to them. Since loans in the title IV program are an entitlement, colleges and schools, by law, cannot refuse a student request for **all** available loans to "fund their education."

Background

To provide student borrowers with an award package that includes their entire loan eligibility can lead some students to use aid money to fund a lifestyle. Congressional intent was not to fund lifestyles. Recently, the woman who gave birth to octuplets stated in an interview that the means by which she is living is student loans. She plans to continue to use student loan money to survive financially. The media has reported that some students have used the money for Christmas presents or for a down payment on a newer car.

The Result

Colleges and schools must disburse all loan funds to students if requested by the students and when tuition payments are current. Financially naive student borrowers often spend the money without budgeting and many have to drop out of school when they run out of money. They are then left with a higher debt burden while not having completed the education needed to seek employment to pay for that education. As a result, many students in that predicament default on their loans. Other students incur such a high debt burden, often borrowing 2-3 times what they need for their education, that the monthly loan repayment is beyond their budget.

Educational institutions do not want to send a graduate or student borrower out with additional debt when they might have somehow limited the amount of debt for that student.

The following are ways schools are trying to limit student borrowing:

1. Counseling students away from extra debt is one way to legally limit the amount of FFELP money a student borrows.
The goal of financial aid professionals is to counsel students to borrow only for the cost of tuition, fees, books, and necessary living expenses.
2. Advise the students of their costs, their debt obligations after graduation, and the importance of being financially responsible.

But these current tools are not enough to stem the tide of overborrowing.

Propose Federal changes to allow schools the following authority:

1. Allow for professional judgment by the financial aid office to limit loans to cost of attendance.
2. Allow an institution to require that every student make X dollars in cash payments. Many students who are fully grant eligible pay nothing for their education while in school. Experience shows that these students tend to be less committed.
3. Allow an institution to set a limit on what reasonable living expenses are by defining them, or
4. Create a formula for allowable educational expenses.

The financial aid offices do not want to be in the situation of some banks that encouraged overborrowing for homes.

Thank you for considering our comments on educational overborrowing.

June 22, 2009
Philadelphia PA

