

Kriss Worthington

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CONSENT CALENDAR

April 30, 2013

To: Honorable Mayor and Members of the City Council

From: Councilmember Kriss Worthington

Subject: Support HR 532; Private Student Loan Bankruptcy Fairness Act and End

Predatory Lending Practices

RECOMMENDATION

Support the Private Student Loan Bankruptcy Fairness Act and send letters to Congresswoman Barbara Lee, Senator Dianne Feinstein, and Senator Barbara Boxer

BACKGROUND

Student debt is now at an all time high; as of 2012 it totaled over \$1 trillion. Many of these loans were issued by predatory private, for profit organizations and often included hidden clauses, high interest rates/no interest caps, and generally did not include basic consumer protections. Unlike many other forms of debt (e.g. Credit card, medical bills, unpaid utility bills, etc.) that can be discharged through bankruptcy proceedings, a bill pushed through congress in 2005 extremely limited the ability to discharge privately issued student loan debt. As a result, students who are unable to pay off their private loan debt are treated the same as individuals who do not pay child support, alimony, or overdue taxes under the current bankruptcy law.

The Private Student Loan Bankruptcy Fairness Act amends the bankruptcy code so private student loan debt is dischargeable and is treated the same as other private consumer debt in bankruptcy by removing the special-interest provision added in 2005. The bill would provide much needed relief and consumer protections to college students and recent graduates.

The attached coalition letter was authored by 35 organizations representing students, consumers and higher education institutions, including the American Association of University Women, the NAACP, National Association of Consumer Advocates, American Council on Education, and many others. The attached letter slightly modifies the coalition letter.

For more information on HR 532: http://beta.congress.gov/bill/113th-congress/house-bill/532

FINANCIAL IMPLICATIONS

None.

CONTACT PERSON
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Attached:

1. Letter to Senators Dianne Feinstein and Barbara Boxer and Congresswoman Barbara Lee

Dear Senators Dianne Feinstein and Barbara Boxer and Congresswoman Barbara Lee,

Private education loans are one of the riskiest, most expensive ways to pay for college. Like credit cards, they typically have variable interest rates that are higher for those who can least afford them. However, private education loans are treated much more harshly in bankruptcy than credit cards and other comparable types of debt.

Private education loan borrowers also lack access to the important deferment, income-based repayment, or loan forgiveness options that accompany federal student loans. This leaves most private loan borrowers at the mercy of the lender if they face financial distress due to unemployment, disability, illness, or military deployment, or when a school shuts down before they can finish their certificate or degree. The recent sudden closures of for-profit colleges in Connecticut, Maryland, Massachusetts, and Rhode Island underscore the urgent need for the Private Student Loan Bankruptcy Fairness Act of 2013.

The congressionally mandated July 2012 report from the Consumer Financial Protection Bureau and the Department of Education documented the need for bankruptcy relief for struggling private loan borrowers. This legislation would reverse the unfair and unjustified special bankruptcy protections for private lenders included in the 2005 bankruptcy law. On behalf of students, consumers, higher education institutions, faculty and staff, as well as civil rights and public policy organizations, our broad and growing coalition thanks you for your continued leadership on this important issue.

Sincerely, The Berkeley City Council