Maine Center for Economic Policy

Mailing: PO Box 437
Street: 1 Weston Court, Suite 103
Augusta, ME 04332
Tel: 207.622.7381
www.mecep.org

TESTIMONY IN SUPPORT OF LD 995, AN ACT TO ESTABLISH A STUDENT LOAN BILL OF RIGHTS TO LICENSE AND REGULATE STUDENT LOAN SERVICERS

March 26, 2019

Good afternoon, Senator Sanborn, Representative Tepler, Honorable members of the Joint Standing Committee on Health Coverage, Insurance, and Financial Services. My name is Jody Harris. I am the Associate Director of the Maine Center for Economic Policy (MECEP). MECEP is a nonprofit research and policy organization dedicated to improving the economic well-being of low- and moderate-income Mainers.

We all have heard the numbers about escalating student loan debt across the country. Maine is no exception. Residents of our state carry more than $6 billion in education debt.

Excessive student debt takes money out of Maine's economy. Our analysis indicates that education debt held by Mainers could support 6,000 jobs and three-quarters of a billion dollars in consumer spending if it were circulating through Maine's economy instead of being sent to federal lenders and loan servicers.

Research by MECEP shows the $6 billion in student debt also keeps Mainers from buying homes and saving for retirement. Some borrowers are even unable to pay their bills or afford basics such as food and clothing or medical care. These are just some of the ways Mainers struggle mightily under their student loan debt.

There are many reasons student borrowers may have trouble paying down their loans. But one reason is beyond the control of individual borrowers: the egregious business practices deployed for profit by the huge finance companies that service student loans.

Predatory practices by student loan servicers drive borrowers into default, ruining their credit and making it harder for them to even find a job. These companies too frequently create obstacles that make it impossible for borrowers to navigate repayment of loans and unfairly allocate payments in a way that maximizes fees and interest.

Their processing delays and poor communication force borrowers to continue to pay more than they should, push borrowers into payment plans they cannot afford, and simply leave borrowers with no information about what they owe, when payments are due, or when changes made to repayment terms.

Last year, advocates stood before this committee and sounded the warning bell. These problems exist in Maine and continue unabated.

Today, we know even more about how these predatory practices are exacerbating Maine's student debt crisis. This fall, MECEP, along with the Center for Responsible Lending, commissioned a poll of Maine borrowers to document their experiences with student loan servicers.

The findings are stunning:

- One in three Maine student loan borrowers had their servicing company fail to tell them about their eligibility for federally approved income-based repayment plans that would help them keep up with payments.
- One-third of Maine student loan borrowers report the cost of their loan increased from new fees or higher interest due to problems with their servicer.
- Four in 10 Mainers with student loan debt say they had a problem with their servicer that led to a decrease in their credit score.
- 28 percent said problems with their loan servicer caused them to default on their loan.
- Recurring trouble with loan servicers is linked to greater hardship as a result of education debt. For example, 42 percent of those with multiple loan servicer problems said they had skipped needed medical appointments or chosen not to buy a prescribed medicine in order to pay a student loan, compared to the average Maine borrower rate of 25 percent.

The student loan system is broken at the federal level, but Maine legislators can put protections in place in our state to prohibit deceptive servicing practices and protect Maine student borrowers.

Thank you. I am happy to answer questions.