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BANKS LOOK TO BREAK GOVERNMENT'S HOLD ON STUDENT-LOAN MARKET

Lobbying group pushes to limit how much individuals can borrow from federal programs

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Private lenders are pushing to break up the government's near monopoly in the $100 billion-a-year student-loan market.

The banking industry's main lobbying group, the Consumer Bankers Association, is pressing for the government to instate caps on how much individual graduate students and parents of undergraduates can borrow from the government to cover tuition.

That would force many families to turn to private lenders to cover portions of their bills. While that could mean lower interest rates for some, it could constrain funding to households with blemished credit histories.

A group of investors also is lobbying for legislation to provide a clearer legal framework for "income-share agreements," under which private investors provide money up front to cover tuition in exchange for a portion of a student's income after school. Firmer rules would help spur more agreements, the group said.

At stake is potentially billions of dollars in new business for private lenders, a group currently dominated by SLM Corp. , better known as Sallie Mae, Wells Fargo & Co., and Discover Financial Services.

The U.S. Education Department makes about 90 percent of student loans annually – a market that totaled $107 billion in new originations in the most recent academic year, according to the College Board.

Private lenders pushed for legislative changes in previous years to no avail, but now they're receiving a more welcome reception from congressional Republicans and the Trump administration.

House Republicans, looking to revamp higher-education policies for the first time in a decade, have included the industry's proposals in a wide-ranging bill unveiled in November, which they hope to pass this year.

Student loans made by lenders other than the federal government during the last academic 2016-17 year totaled $11.6 billion, down 51 percent, after inflation, from a decade earlier, according to the College Board.

Private student lending has fallen in part because banks tightened underwriting standards after the 2007-2009 financial crisis. It also has dropped because of moves by Congress to allow students to borrow more directly from the government. Starting in 2006, most graduate students have been able to borrow unlimited amounts. Parents also face no restrictions on how much they can borrow under the Parent Plus program.

The Republican bill – Promoting Real Opportunity, Success, and Prosperity through Education Reform, or Prosper, Act – calls for limits on the total federal student-loan amounts certain borrowers can receive. Many graduate students wouldn't be able to borrow more than $150,000 in total federal loans for undergraduate and graduate studies. Parents in many cases would be limited to around $56,000 per dependent. That could mean students who attend pricey schools or those who go on for advanced degrees will turn to the private student lenders to cover additional borrowing needs.

The House bill – introduced by Rep. Virginia Foxx (R., N.C.), chairwoman of the House education committee, late last year – cleared the panel in December and now requires approval of the full House. A vote hasn't been set. Her Senate counterpart, Lamar Alexander (R., Tenn.), has yet to introduce companion legislation this year.

Critics say some of the industry's proposals would hurt taxpayers and students who lack the credit to qualify for private-sector loans. Some schools and student advocates add that setting stricter dollar limits on federal loans would limit many students from attending schools of their choice.

"The number one priority of Wall Street banks is their own bottom line," Sen. Elizabeth Warren (D., Mass.), a member of the Senate education committee, said in a statement. "Pushing more students to borrow private loans from banks without consumer protections is a terrible idea."

Banks argue the government's policy of extending loans to college and graduate students, no questions asked, has led to high default rates, runaway tuition inflation and taxpayer costs.

"We absolutely believe there is a role for the federal government. What we don't want to see is continued nearly unlimited lending that has been fueling a rise in tuition costs," said Kristen Fallon, vice president of congressional affairs for the Consumer Bankers Association.

Private lenders won't make loans to cover tuition at schools of dubious quality, Ms. Fallon says. "They're making some assessment on the value proposition" of individual schools, she said. "We think that is absolutely necessary."

CBA leaders have met with lawmakers and Trump administration officials to push for the changes, a spokesman said. The group spent $3.54 million in lobbying last year on all issues, according the nonprofit Center for Responsive Politics.

Private student lenders target the most creditworthy borrowers. That includes parents of undergraduate students and graduate students with an established history of paying debts on time. Most private lenders require high credit scores and around 90 percent of the loan dollars they extend to undergraduates have parent or other adult cosigners attached to them, according to MeasureOne, which tracks lending in the private student-loan sector.

Several private lenders are offering lower interest rates than what the federal government charges the most creditworthy borrowers. And unlike federal loans, most private loans don't charge an origination fee when borrowers sign up for the loan.

Private lenders hope low interest rates, which often start at around 4 percent to 5 percent for the most creditworthy borrowers, will convince applicants to take out private loans. A federal program known as “Plus” loans for graduate students and parents of undergraduates that are given out during the current academic year have rates of 7 percent, regardless of how high or low borrowers credit scores are. The government currently charges rates of 4.45 percent for undergraduate loans.

The government relies on interest payments from creditworthy borrowers to offset the money it loses on defaults from other borrowers and thereby keep the federal loan program solvent.