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January 17, 2012

Office of the Executive Secretary
Consumer Financial Protection Bureau
1500 Pennsylvania Ave. NW, (Attn: 1801 L Street)
Washington, DC 20220

Via: <http://www.regulations.gov>

Re: Docket No. CFPB-2011-0037, Request for Information Regarding Private Education Loans and Private Education Lenders

Introduction

Commercial Alert is a project of Public Citizen, a consumer protection organization based in Washington, D.C., with more than 250,000 members and supporters. We aim to keep commercial culture within its proper sphere, and to prevent it from exploiting children and subverting values of family, community, environmental integrity, and democracy.

We appreciate the opportunity to respond to the Consumer Financial Protection Bureau's request for information regarding private education loans and lenders. Public Citizen believes that proper regulation of the marketing and advertising of private student loans is a crucial component of helping students to make informed decisions about which financial services and products are right for them. In an ideal world, federal aid would be sufficient to fully meet all students' needs. Given that this is not the case, and that some students must rely on private lenders to pursue higher education, students must be protected from exploitative education lenders who fail to offer sufficient information to allow students to make sound financial decisions.

Background

The Project on Student Debt reports that close to one in seven undergraduate students borrowed money from private education lenders in 2007-2008. Moreover, the majority of these borrowers took out loans from private lenders before exhausting available federal loans, which are more affordable and allow for better repayment terms.¹ The Department of Education and

¹ Reed, M. (2011, July). "Critical Choices: how Colleges Can Help Students and Families Make Better Decisions about Private Loans." Retrieved 10 January, 2012, from http://projectonstudentdebt.org/files/pub/critical_choices.pdf.

other experts agree that students should exhaust all federal aid options prior to considering any private loans.

The internet is an important source of information for Americans, especially young Americans. A recent study finds that 92 percent of “Millennials” (ages 18-34 as of 2011) use a search engine when online. One third of Millennials use the internet to get financial information.² Given these usage rates, search engine advertisements for private student loans may be an important source of information for young people seeking financial assistance for educational pursuits. Our analysis below suggests that search engine advertisements, and the websites they direct consumers to, inadequately warn consumers about the risks of private student loans and the importance of pursuing federal options prior to seeking private loans.

Responses to Questions

Our analysis of search engine advertising for private student loans responds to questions 2 and 3a posed in the request for information issued by the Bureau of Consumer Financial Protection. These questions are listed below with brief responses. More detailed analysis follows.

- (2) For students who do not exhaust their federal loan options, including those that require the completion of a Free Application for Federal Student aid (FAFSA), before turning to private education loans, what explains their choice of private loans?

Private education lenders use marketing strategies that target students seeking loans. Online advertisements do not warn students to maximize federal loans prior to seeking private loans.

- (3) (a) How effective are the existing disclosures provided by private education lenders regarding the terms and conditions of the loans? Among other things, comments could address issues such as whether students and families feel they adequately understand the terms and conditions of various financial products offered to finance their education goals.

Search engine advertisements for private education loans offer no warnings regarding the terms and conditions of loans, nor do they offer warnings about exhausting federal loans prior to using private lenders’ services. When consumers click on these advertisements and are routed to private lenders’ or private loan aggregators’ websites, ensuing warnings are often still inadequate.

² Zickuhr, K. (2011). "Generations 2010 (Updated Data, 2011)." Retrieved 11 January, 2012, from <http://pewinternet.org/Reports/2010/Generations-2010.aspx>.

Analysis of Search Engine Advertisements for Private Education Loans

In order to examine online advertising for private student loans, we searched for “student loans” on Google and Yahoo (hereafter “search engine advertisements”).³ We examined the advertisements (i.e. not the search results themselves, but the paid ads located in the top and right hand margins of the browser) that appeared. We refreshed the search several times to generate new content. The searches yielded ads for seven financial services companies and five aggregator sites (sites that compare various private loan options for consumers).⁴

We evaluated the ads based on their content, the number of “clicks” required to reach a page that contained a warning alert referring to federal loan options, and the quality and clarity of the warnings.

Content of ads

None of the search engine advertisements make any reference to exhausting federal loans prior to applying for private loans, or to any risks associated with private loans (See Tables 1.1 and 1.2). Since these ads appear when a consumer simply searches for “student loans,” it is reasonable to assume that students who have not yet exhausted federal loan options but are in need of funds may click on these ads. There is no warning at this stage that would prompt them to avoid these companies.

Language in advertisements emphasizes certain features of private student loans. Advertisements describe loans as fast and easy and refer to low rates, the absence of fees, flexible repayment, cosigner requirements (needed or not), and offering more money/specific amounts of money.

Table 1.1: Content of Financial Services Company Advertisements

Financial services company	Advertisement Content
Citi	<ul style="list-style-type: none"> a) Private Student Loans from Citi. New Lower Rate and Zero Fees. b) Student Loans from Citi. Up to the Entire Cost of Education and No Payments While in School. c) Student Loans from Citi. Apply for a Student Loan Today. It’s Fast & Secure. Learn More. d) Apply for a Student Loan. Private Student Loans from Citi. New Lower Rate and Zero Fees.
Discover	<ul style="list-style-type: none"> a) Discover Student Loans. Up to 100% of Your Tuition & School Expenses and a 2% Graduation Reward

³ When “federal student loans” was used as a search term instead of “student loans,” advertisements for several of the private education lenders and aggregator sites listed below appear.

⁴ Ads also appeared for: a “scholarship competition” that provided a link to an aggregator site for student loans upon entry into the draw; a site to aide students who had defaulted on their loans; an aggregator site that linked back to another aggregator site already listed in our data; and several ads for pay day loans.

	b) New Low Rates with APRs as Low as 3.25% and Zero Origination Fees! Certified Private Loan - Student Loan Options - Apply For a Loan Now
PNC	a) PNC Student Loans – Need Money for College? We Can Help. Ask About Flexible Repayment! b) Need a Student Loan? Get Flexible Repayment Options with The PNC Solution Loan. Apply Now!
Sallie Mae	a) Sallie Mae Student Loans. Apply Online at Sallie Mae Today b) Sallie Mae Student Loans. Need a Last Minute Student Loan? Sallie Mae Can Help. Apply Now! c) Sallie Mae Student Loans. Enjoy Low Rates on Student Loans. Apply Online at Sallie Mae Today!
Sun Trust	Student Loan: Borrow more money for Undergraduate Study. Apply Online.
Union Federal	UFSB Student Loans. Ready to Apply for A College Loan? Grab A Cosigner and Get Started!
Wells Fargo	a) Wells Fargo Student Loan. It's Quick, Easy, and Free to Apply No Payments While You're in School.

Table 1.2: Content of Private Education Loan Aggregator Site Advertisements

Aggregator Site	Advertisement Content
Classes USA	a) Top 2011 Student Loans. Return to School with Student Loans See if You Qualify! b) Top 2011 Student Loans. You May Qualify for a Student Loan To Go Back To School in 2011!
Find Student Loans	a) Compare 8 lenders side by side in 30 seconds. Apply Online Instantly b) Need a Student Loan Fast? Let Us Do the Work for You. Compare Your Options and Apply Now.
Private Loan Comparison	Need a Student Loan Now? We Make It As Easy as 1, 2, 3 Compare Rates & Apply All At Once.
Simple Tuition	a) Need a Fast Student Loan? Your Student Loan is Just 2 Clicks Away. Compare Top Lenders & Apply. b) Need a Student Loan Fast? Compare Top Lenders & Apply
Tuition Chart	No Cosigner Student Loans. Get \$40,000 in Student Loans ASAP. No Payments Unit After Graduation.

Time to Warning and Quality of Warning

As noted above, none of the advertisements for private education loans or aggregator sites included warnings regarding the important of exhausting federal loans prior to pursuing private loans. Once consumers click on advertisements, following a link to the advertisers' web sites, another opportunity for such a warning arises. The majority of advertisers' websites offer some

form of warning statement. We evaluated the advertisements on the basis of how many clicks were necessary to reach the disclosure. For example, “one click to warning” indicates that the first page the consumer encounters upon clicking on the ad contains some form of warning. Time to warning ranged from one click to three clicks, with two sites providing no warning. We also evaluated the quality of the warning statements, considering the language used and information provided in the warning statement as well as the format of the disclosure (i.e. fine print, lighter font, etc.). Findings are summarized in Tables 2.1 and 2.2 below.

“Mediocre” warning statements make reference to federal loans, but typically use softer language and may not state the advantages of student loans in an unequivocal fashion. For example, Discover’s warning statement reads, “We encourage you to maximize scholarships, grants and other financial aid before taking loans. Consider federal student loans which may have more flexible repayment options, before applying for private student loans. Please contact your school’s financial aid office for more information about federal student loans.”⁵ While the language of the Discover warning statement is softer, it points to the possibility that federal loans have better repayment terms. In contrast, another statement in the mediocre category does not go as far: Citi’s warning statement reads, “This private student loan is for undergraduate students who are enrolled at least part-time. It can be used to pay for tuition, books, or other school-related expenses when federal loans fall short.”⁶ If the consumer clicks on “Learn More” (not a mandatory step prior to application), a slightly clarified statement appears (“If you’re an undergraduate student who has received aid through scholarships, grants and federal loan programs, but are still coming up short, then a private student loan from Citi can help cover the difference in cost.”) as well as specifics regarding the terms of the loan.⁷ PNC’s initial warning statement on the landing page following the advertisement is in fine print, stating, “You are encouraged to explore all scholarship, grant and federal borrowing options before applying for a private loan.” However, upon clicking on “Apply Now,” the same statement appears in print that is the same size as the rest of the text on the page. PNC also has a clear (but not mandatory) link to a warning statement for each type of student loans, which offers detailed information about federal options and a link to the federal financial aid website.

“Poor” warning statements offer only vague language about federal loans, and display statements in fine print or light typeface. For example, Union Federal states only, “When scholarships, grants, and federal loans aren’t enough, Union Federal Private Student Loans can help put college or grad school within reach.”⁸ SimpleTuition’s vague warning statement appears in fine and lightly colored typeface, stating, “We remind users that there are many additional borrowing options available - use SimpleTuition as part of your larger quest for college

⁵ <https://www.discover.com/student-loans/index.html> Consumer must click “Apply Now” and enter school information in order to reach disclosure statement.

⁶ https://www.studentloan.com/landing/undergraduate_student_loans.htm

⁷ <https://www.studentloan.com/privatestudentloans/citiassistundergraduateloans.htm>

⁸ <http://www.unionfederalstudentloan.com/lpe/index.html?q=EURGGPL>

financing. Shop around and make the choice that's best for you and maximize use of federal aid options whenever possible.”⁹

In cases where warning statements are only accessed by clicking on optional links, they are automatically classified as “poor.” This is the case with Find Student Loans’ website, which offers useful information, but it is available only when consumers click on an optional link – they can easily bypass the warning statement and move on to the application step.¹⁰

At first glance, Private Loan Comparison (PLC), an aggregator site that provides links to private lenders, appears to offer good information to consumers. The site’s landing page includes the statement: “Federal loans offer low interest rates and low (or no) credit score qualifications for borrowers. Loans such as Perkins, Stafford, and PLUS loans for parents fall into this category. These are the first types of loans you should apply for since they generally turn out to be the ones that end up costing you the least over the term of the loan.”¹¹ On the same page, PLC also states, “Investigate many different types of student loans to find the ones that are best for your needs. Just because someone tells you to take out a private student loan, make sure you investigate Federal student loans first. They usually offer the best rates.”¹² However, though the site includes the above statements, along with descriptions of Stafford and PLUS loans, it does not offer links to the websites where consumers can access these types of financial aid. It is possible that the page could mislead consumers: they may believe that the PLC site will connect them with better, federal loans. In fact, PLC connects consumers to private lenders and private, for-profit colleges. (The latter connection is particularly strange: once students have already identified themselves as current or future students at specific colleges, they encounter ads for for-profit colleges offering online degrees.) Further research on private lender disclosure statements should evaluate whether sites like PLC that provide information about federal loans yet do not connect consumers to the sites where they can actually access such loans actually offer a false sense of security to consumers. Because the information provided by PLC is at once more extensive than other sites *and* potentially more misleading, we have left in “uncategorized.”

Sallie Mae’s site did not provide any warning statement prior to the point at which the user must enter private information, including a social security number.

⁹ http://landing.simpltuition.com/ht_rf/?WT.mc_id=201638&9gtype=search&9gkw=student%20loans&9gad=7018190483.1&utm_source=sem&utm_campaign=google&utm_medium=head&gclid=CObltdPEXq0CFQXd4AodLwk1jA After clicking on the ad, consumers must enter their email address and school information in order to reach the landing page and disclosure statement.

¹⁰ http://www.findstudentloans.com/index.html?AFFIL_ID=17869&WT.mc_id=500103 More information is found when consumers click on “How to choose student loans”

¹¹ <http://www.privateloancomparison.com/index.html>

¹² Ibid.

Table 2.1: Financial Services Company Warning Statements

Financial services company	Clicks until warning	Quality of warning statement content
Citi	1	Mediocre
Discover	3	Mediocre
PNC	1 or 2	Mediocre
Sallie Mae	N/A No disclosure prior to entering private info (social security number)	None
Sun Trust	1	Mediocre
Union Federal	1	Poor
Wells Fargo	3	Mediocre

Table 2.2: Private Education Loan Aggregator Site Warning Statements

Aggregator Site	Clicks until warning	Quality of warning statement content
Find Student Loans	2	Poor
Private Loan Comparison	1	Uncategorized
SimpleTuition	2	Poor
Tuition Chart	1	Mediocre

Recommendations

- (1) Online advertisements for private student loans, including those by financial services companies and aggregator sites, should include a warning statement in a font that is the same size and shade as the other text in the body of the advertisements. The warning should make a statement similar to the following: *“Students should exhaust all federal financial aid prior to considering private loans. Federal loans are more affordable for students and have better repayment terms than private loans.”*
- (2) The same warning as above (1) should be visible on the web page consumers land on after clicking on the advertisement. A link to a federal student aid webpage should be provided. The warning statement and link should appear on every page of an application for a private student loan.
- (3) Although not analyzed here, ads for student loans also appear on social networking sites, websites about financial aid for college, and elsewhere on the Internet. All online ads should include a warning statement similar to the one described above.

Conclusion

Public Citizen urges the Consumer Financial Protection Bureau to address the role of marketing and advertising in shaping students' decisions regarding private education loans in its report. Student consumers need protection from misleading advertising for private loans, or advertising that fails to provide sufficient information to allow them to make sound financial decisions. The foregoing analysis suggests that private education lenders are not providing adequate information to consumers. Government regulation to ensure such information is clearly provided is an important aspect consumer financial protection in this arena. Moreover, further study of advertising and marketing practices by private education lenders is needed.

Thank you for the opportunity to respond to this request for information. We look forward to reading your report. If you have further questions, please feel free to contact us.

Sincerely,

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Campaign Coordinator and Senior Researcher
Public Citizen's Commercial Alert