STATEMENT

Of

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Chairman Johnson, Ranking Member Crapo, and members of the Committee, I appreciate this opportunity to discuss the OCC's supervisory approach to private student lending conducted by national banks and federal savings associations. Promoting fair and equitable access to credit—including education financing—is a core OCC mission and one of our highest priorities.

Financial assistance is an important means of helping promote higher education in this country. National banks and federal savings associations have a long history with federal and private student lending programs, but they make up just three percent of the approximately $1 trillion in outstanding student loans in this country today. However, the private student loans offered by national banks and thrifts provide an important supplement for many students seeking to finance their educations.

For most consumer loans, such as auto loans, the underwriting, structure, and management of the loans are straightforward. The funds serve a specific purpose, and the source of the repayment is well defined and easily assessed at the loan's origination. Student loans, however, pose unique challenges for lenders and borrowers. For example, student loans often require a several-year commitment that extends from when the student starts school until repayment begins after the education is complete. Private student loans are usually unsecured, and a significant time may pass between when the lender advances the funds and when that student reaches their anticipated earnings potential. In addition, because the government does not guarantee private student loans as it does federal student loans, many lenders require co-signers to help ensure repayment.

Notwithstanding the challenges of private student lending, we expect national bank and thrift lenders to provide flexibility to borrowers when appropriate. For example, lenders typically defer payments while borrowers are in school and offer grace periods afterward to help borrowers transition to employment. Student loans are the only consumer product with such a transition period. This flexibility reflects the unique circumstances of the student borrower and that these loans truly are an investment in the borrower's future.

We also encourage lenders to work with borrowers who experience financial hardship. That assistance may come in the form of forbearance, modification programs that reduce interest rates or change other terms of the original loan, or extended grace periods that go beyond what is permitted in other consumer loans—for up to 12 months. The OCC supports these efforts and issued guidance to our examiners in 2010 describing our expectations for managing forbearance, workout, and modification programs.

While the OCC encourages national banks and thrifts to work with borrowers facing difficulties, this does not relieve these institutions of their responsibility to ensure that regulatory reports and financial statements are accurate and representative of the financial condition of the institution. Neither the public nor the banking industry should confuse the expectation for full and accurate reporting as a limit on available forbearance, workout, or modification programs. To be clear, our student lending guidance allows flexibility for lenders to offer forbearance and modification programs, but requires banks to report the volume and nature of these transactions accurately. The flexibility to assist borrowers and the responsibility to report those actions accurately are not mutually exclusive. Together, they promote a safe and sound banking system.

My testimony concludes with a discussion of a number of policy recommendations to strengthen student lending. Overall, the OCC supports recommendations aimed at improving the transparency of student loans to help students and their families make better informed decisions. Likewise, we support loan documents and billing statements that are easy to understand.

In closing, while private student lending is a small part of the available financial assistance in this country, it is an important part, and we encourage banks to work with troubled borrowers, during periods of hardship.

Thank you again for the opportunity to testify and I'd be happy to answer questions.