

May 14, 2021

The Honorable Lorena Gonzalez
Chair, Assembly Committee on Appropriations
State Capitol, Room 2114
Sacramento, CA 95814

RE: Assembly Bill 424 (Stone) Private Student Loan Collection Reform Act - SPONSOR

Dear Chair Gonzlaez,

NextGen California respectfully requests your support of AB 424 (Stone), which would strengthen consumer protections for borrowers who are carrying private student loans. Specifically, this bill bans abusive debt collection tactics by requiring debt collectors to prove that delinquent private student loan debts are indeed valid when attempting to collect on them. AB 424 builds on a number of student loan reform bills that were signed into law over the last few years that rein in California's unregulated and predatory \$141 billion student loan industry.

As of June 2020, more than 650,000 Californians owed \$10.3 billion in private student loan debt. Private student loans are generally administered by big corporate financial institutions such as banks, for-profit colleges and other private lenders. As such, individuals carrying private student loans do not enjoy many of the same consumer protections available to individuals with federal student loans. Low-income individuals and students of color are more likely to hold private student loans and are far too often subject to the predatory lending practices that can accompany these loans.

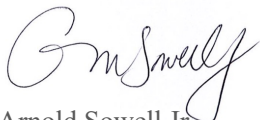
For example, when a private student loan borrower falls behind on their payments, aggressive debt collection and litigation strategies are often pursued by loan servicers and debt collectors. These student loan servicers and debt collectors routinely fail to provide the critical documentation needed to prove they have the legal right to pursue repayment through wage garnishment or other court orders. Frequently, borrowers are being dragged into court under false pretenses with loan servicers and debt collectors merely claiming they have the right to collect on the borrower's private student loan debt without any proof. The National Collegiate Student Loan Trust (NCT) is one of the nation's largest holders of private student loans -- holding 800,000 private student loans. A sample audit of 400 NCT loans found that NCT could not establish the chain of ownership for *any* of these loans.

Loan servicers and debt collectors generally win most of these fraudulent lawsuits because borrowers are unfamiliar with their rights and/or are unable to afford legal representation. These unfavorable court rulings result in devastating impacts on the student borrower -- many of whom are already economically disadvantaged -- such as wage garnishments or seizure of other monetary assets.

AB 424 is critical to curbing these abusive debt collection practices. It establishes minimum evidentiary standards for private student loan lenders or debt collectors seeking to file a lawsuit against borrowers, and requires them to provide specified records such as documentation establishing the chain of loan ownership. AB 424 also provides borrowers avenues of enforcement if a lender or debt collector fails to comply with the bill's provisions.

NextGen California prioritizes policies and programs that support student access, success and time-to-completion. Addressing college affordability, reforming the state's financial aid system, and improving the regulatory environment around student loans are all part of the equation to strengthen California's higher education system. Student borrowers shouldn't be unnecessarily dragged into court for debt they may not even owe. For the above reasons, we respectfully request your "aye" vote on AB 424.

Sincerely,



Arnold Sowell Jr.

Executive Director, NextGen California