

**Testimony of
Illinois Attorney General Lisa Madigan
for a Hearing on “The Role of States in Higher Education”
before the Committee on Health, Education, Labor, and Pensions
United States Senate
Thursday, July 24, 2014**

Chairman Harkin, Ranking Member Alexander, and members of the Committee, thank you for inviting me to testify today.

At the state level, one of our foremost concerns and priorities is to have a highly qualified workforce available to attract and retain businesses that provide our residents jobs.

The only way to achieve that goal is to ensure affordable, high quality higher education opportunities for our residents.

I appreciate the opportunity to share what we have learned about the challenges facing higher education students in Illinois—first, as they seek higher education, and, later, as they work to pay off the debt they accumulated obtaining that education.

In recent years, my office has seen a significant increase in the number and scope of complaints from current and former higher education students.

To assist the Committee today, I am dividing my testimony into three parts:

- I will explain my role in higher education as the Attorney General of Illinois;
- I will share my office’s work protecting higher education students; and
- Finally, I will provide recommendations for the Committee to consider as it works to reauthorize the Higher Education Act.

Role of the Attorney General in Higher Education

As a state attorney general, I have the responsibility to protect the consumers of my state. My role in higher education is no different than my role in other areas where I work to protect consumers. When high school students or non-traditional students begin the process of pursuing higher education, it often marks one of the biggest purchases they will make in their lives. They are taking on loans that can add up to tens of thousands of dollars, if not more.

While we call them “students,” they are acting as consumers when they seek higher education and these students deserve protections, like all consumers.

In my role, I have ensured that my office understands the challenges facing higher education students and that we take steps to protect them. Unfortunately, I have repeatedly seen circumstances where companies involved in higher education are taking advantage of students.

Protecting Illinois Students

In recent years, my office has received higher education complaints from students with increasing regularity. Overwhelmingly, these complaints are against three types of companies involved in higher education: for-profit schools; student loan servicers; and, more recently, companies purporting to offer student debt relief services.

For-Profit Schools

My office currently has one active lawsuit against a for-profit school, as well as a number of open investigations into the conduct of other for-profit schools operating within Illinois.

I have also joined a multistate investigation into the conduct of for-profit schools with 17 other state attorneys general.

While I cannot go into detail on the specifics of each investigation, I can share why state attorneys general across the country, from both political parties, are suing and investigating for-profit schools.

Since 2010, over a thousand current and former higher education students have filed complaints with my office about the practices of for-profit schools. These students wanted nothing more than to go to school and better their lives. But too many of them ended up struggling to pay for an expensive education that did not give them the skills necessary to obtain meaningful employment.

Through my office's work, we have learned that some for-profit schools are gaming our higher education system. They are using aggressive marketing tactics to lure unsuspecting students, who have access to federal loans, into entering exorbitantly priced programs that will not help them secure employment. In fact, tuition prices can be so high that federal student aid is often not enough, and students are steered into high-cost institutional loans that saddle them with more debt while maximizing profits for schools.

For example, we have heard from students who paid tens of thousands of dollars to obtain degrees or certificates from for-profit schools, only to find out that employers did not recognize the certificates or degrees from the for-profit schools the students attended. The schools did not have the proper accreditation, but they led potential students to believe that they did.

For our state and the federal government, outcomes like these mean lost opportunities to train individuals for the workforce and wasted taxpayer dollars. The federal government has provided billions of dollars of loans to students attending these for-profit schools.

And for the students, it means tens of thousands of dollars of debt with no better chances at finding employment.

This dangerous combination of high debt and few job prospects means that a lot of these students have a hard time paying off their student loans. And the statistics confirm it.

Students of for-profit schools are more likely to default on their loans than their counterparts at public institutions and private, non-profit institutions.

But we cannot ignore the fact that default is a problem for graduates of all kinds of higher education programs and that unscrupulous companies are now targeting students who are struggling to pay off their federal loans.

Student Loan Debt Relief Scams

Because many former students are having a difficult time paying down their student debt, a new scam looking to take advantage of these students has been created—it is called student loan debt relief.

These companies offer student loan debtors bogus services or charge for services that the federal government already offers for free. And they are making empty promises in TV and radio ads and on the Internet, including claims to provide:

- Help with enrollment in the “Obama forgiveness program,” which is not an actual government program;
- Free help to anyone with at least \$10,000 dollars in student loan debt; and
- Free loan forgiveness information for teachers, nurses, government employees, police officers, firefighters and employees of non-profit companies.

For these so-called services, the companies charge huge up-front fees—sometimes more than \$1,000. And in some instances, we discovered they provided no assistance to the people who paid for their help, or the companies charged students for simply providing government forms easily accessible for free on the federal government’s websites.

We have seen these kinds of scams before.

When the recession hit, people had trouble paying off their credit card debt. In response, companies began offering bogus credit card debt relief services that took advantage of people and left them worse off financially.

When the housing crisis hit, the same scammers targeted homeowners who were having trouble making payments on their mortgages.

Student loan debt relief is just the latest iteration of an ongoing scam.

The scam violates a number of Illinois laws, including a law on debt settlement that my office crafted and the legislature passed in 2010, which bans up-front fees—the Debt Settlement Consumer Protection Act.

Last week, my office filed lawsuits against two companies engaging in this scam. We will continue to pursue companies like these until we put a stop to these practices.

However, the companies that engage in these scams are mere symptoms of a larger problem. Too many former students are having a hard time paying down their student debt.

In many cases, they are not aware of the options available to them. Student loan debtors can have a hard time getting the right person on the phone. And they are not receiving information on the options available to them for repaying their loans.

This massive confusion provides an easy opening for scammers.

Student Loan Servicing Companies

That is why, in addition to these lawsuits my office continues to investigate student loan servicing—including leading a multistate investigation of the student loan servicer, Sallie Mae, now called Navient.

Recommendations for the Committee

My office's work in these areas—for-profit schools, student debt relief scams, and student loan servicing—is having an impact. State attorneys general can and do change the behavior of industry through our investigations and lawsuits. These outcomes certainly apply to higher education as well. However, our role at the state level is only part of the equation. We need action at the federal level.

Most importantly, higher education students need to be better protected under federal law. Congress should make stronger consumer protections apply to the private companies that play a role in higher education. These companies include both for-profit schools and student loan servicers.

With respect to for-profit schools, Congress must place better controls over Title IV funds to ensure they are only used to help students achieve high quality, affordable higher educations. These funds are too important to be misused. For those institutions that do misuse funds, Congress should ensure there are strong civil penalties for doing so.

For companies engaged in student loan servicing, Congress should create standards that all student loan servicers must follow. To protect borrowers, we need protections in place that are above and beyond the general prohibitions against unfair and deceptive practices in state consumer fraud acts. These standards need to ensure that servicers make clear to borrowers what their repayment options are.

Standards would help eliminate the confusion and lack of information that borrowers are currently experiencing. Congress should also make sure counselors are made available to student loan borrowers, just as they are made available to borrowers with mortgages.

In addition to the reforms needed in student loan servicing, people struggling to repay their student loans need better and easier access to student loan repayment options available through the Department of Education.

The rise of student debt relief scams can be attributed to students being unaware of federal programs or having a hard time understanding the programs available to them. This system needs to be streamlined and it needs to be more accessible.

At the very least, the Department of Education should create a public awareness campaign to get through to current and former higher education students so they know there are programs available that can help them. The scammers have advertisements and these advertisements are working. We need ads highlighting real programs to counteract them.

Finally, Congress should pass a bill allowing students to refinance their federal loans to take advantage of the lower interest rates available today. This bill recently stalled in the Senate and there is no justification for Congress's failure to help these students.

Conclusion

Student debt poses a large and growing threat to our economy. In Illinois, and across the country, because too many people are unemployed or underemployed, they are having a hard time keeping up with their student debt obligations. And if Congress can take steps—like lowering the interest rates on student loans—to help those people, it should do it.

I have seen what happens to people when they fall behind on their student loan payments. It can take years for them to get themselves back on solid financial ground.

Just as the housing crisis has trapped millions of borrowers in mortgages that are underwater, student debt could very well prevent millions of Americans from fully participating in the economy or ever achieving financial security. The warning signs are there. Just like they were there before the housing crisis. And Congress needs to act before it is too late.

As an attorney general, I can bring cases against bad actors. And I will continue to do so. But we need more effort on the front end, to prevent those bad acts from happening in the first place and to prevent students from falling into the vicious cycle that unpaid debt brings.

I am available to answer any questions you have.

Thank you.