July 29, 2026

Senator Bill Cassidy
Chair
Senate Health, Education,
Labor and Pensions Committee
428 Dirksen Senate Office Building
Washington, DC 20510

Senator Bernie Sanders
Ranking Member
Senate Health, Education,
Labor and Pensions Committee
428 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Cassidy and Ranking Member Sanders,

We write to share our concerns and opposition to **S.4097, the State-Based Education Loan Awareness Act**, which would exempt state-based education loan programs from preferred lender requirements and is scheduled to be considered before the Senate Health, Education, Labor and Pensions Committee on July 30, 2026. While we understand the intent of the bill is to ensure that students and families have access to information on diverse college financing options, the bill will actually decrease transparency by allowing certain state-based education loan programs to circumvent critical preferred lender transparency and disclosure rules and allow schools to steer students into loan programs based solely on their state affiliation.

However, there is no evidence that on the whole, state-based lenders offer consistently better rates, terms, conditions, repayment options, or borrower protections than their for-profit counterparts. State-based loan programs vary widely, and while some lenders may offer lower rates for borrowers with exceptional credit or more borrower-friendly repayment options, many do not. Many state-based lenders also have a history of harmful practices, including collecting on loans after borrowers' deaths, that mirror or go further than those of for-profit and/or private lenders.

This bill would exempt these lenders from preferred lender rules—critical protections meant to ensure that colleges are promoting loan options that are in the best interest of their students, not their own financial bottom lines.

Preferred lender rules are critical in protecting students from being steered by their colleges into products that are not in their best financial interest.[1] These rules were established in response to scandals where investigations revealed that multiple lenders were paying schools—or, in some cases, school employees—kick-backs in return for inclusion on preferred lender lists.[2] In

[1] AccessLex Institute, *Preferred lender lists help students navigate the private loan market*, (Oct. 7, 2025), https://www.accesslex.org/blog/preferred-lender-lists-help-students-navigate-private-loan-market.
[2] NPR, *Probe targets college financial aid kickbacks*, (Apr. 5, 2007), https://www.npr.org/2007/04/05/9396739/probe-targets-college-financial-aid-kickbacks.

response, the federal government enacted new law and rules[3] to tamp down on these practices and other conflicts of interest.

Preferred lender rules have received less attention over the last decade as the size of the private student loan market shrunk, in part due to the creation of the Graduate PLUS program, which enabled graduate students to cover their full cost of attendance via the federal loan program. However, the One Big Beautiful Bill Act (OBBBA), signed into law in July 2025, ended the Graduate PLUS program, capped Parent PLUS loans and unsubsidized graduate loans and prorated loan eligibility for students attending programs less-than-full-time. These changes will likely increase reliance on private student loans for both graduate students and parents of undergraduates.

As a result, private lenders are openly preparing for an influx of borrowers and touting their loan products as the best alternatives for families.[4] Preferred lender regulations will be particularly crucial as the current Consumer Financial Protection Bureau has reduced its oversight and enforcement activity toward the private student loan market.[5] In this context, preferred lender disclosures are a key tool to protect students and families from being steered by their colleges into products that are not in their best financial interest. By granting an exemption from these protections, the bill would weaken the entire structure of preferred lender arrangements.

Preferred lender arrangements carry common-sense protections for borrowers:

- Colleges can't refuse, delay, or complicate certification because students picked a lender that isn't on its list
- Colleges must publish the criteria used to select lenders, and file an annual public report explaining why each lender's terms benefit students
- Schools' affiliations with listed lenders must be fully disclosed
- A code of conduct bans revenue sharing, gifts, paid advisory boards, staffing assistance, and lender-run call centers posing as financial aid
- Disclosures must be provided annually and early enough to compare options and before the student actually selects a lender

Before these rules were enacted, it was commonplace for schools to enter into [“revenue-sharing” arrangements] with lenders where the lenders funneled a percentage of each students' loan principal to the school in return for inclusion on the preferred lender list. These arrangements

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[3] *See* 20 U.S.C. §1019a(a)(1)(A); 34 C.F.R. § 601.10.
[4] The Washington Post, *States look to help with student loans to offset Trump administration limits*, (Jan. 22, 2026), https://www.washingtonpost.com/education/2026/01/22/state-graduate-lending/.
[5] PoliticoPro, *Consumer Financial Protection Bureau will 'deprioritize' student loans*, (Apr. 17, 2025), https://subscriber.politicopro.com/article/2025/04/consumer-financial-protection-bureau-will-deprioritize-student-loans-00296046.

were not disclosed to students, who trusted their school to recommend lenders based on loan cost and terms. As more students and families are forced to rely on financing alternatives to pay for college, policymakers should be looking to strengthen preferred lender rules, not providing industry-specific carveouts, so that students have more transparency into the products schools are advertising.

A growing number of schools have also abandoned the process of providing preferred lender arrangements to students, leaving it entirely up to them to navigate a confusing market. Others simply pass along external comparison sites with little review of those information sources. As a result, students are often inundated with information from the largest lenders with the greatest advertising and marketing reach, rather than presented with careful comparisons about the terms, fees, and structure of the loans themselves. This bill would make it even *more* likely that a college would choose not to offer the transparency the preferred lender rules provide, since they would have an "easy" exemption in providing the state-based loan information. In doing so, students would lose valuable transparency over the other private student loan options.

While state-based lenders tout themselves as the "low-cost[6]" and "better private loan options[7]" for students, they too have a long history of scandals and have been found to engage in predatory and abusive practices.

State-based loan programs often hide behind the veneer of a state program, but they essentially provide private loan products by another name.[8] Like private student loans, state-based loans generally lack access to Income-Driven Repayment, Public Service Loan Forgiveness and pathways to cancellation like Total and Permanent Disability Discharge, Borrower Defense and Closed School Discharge. They have also had a long track record of scandals[9] with investigations showing state-based non-profit lenders providing kickbacks to colleges for promoting their loans[10], using taxpayer funds to provide nearly $900,000 in executive bonuses[11] and spending resources on lavish parties and limousines for board members.[12]

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[6] *See* Alaska Commission on Postsecondary Education, https://acpe.alaska.gov/.
[7] *See* INvested, https://www.investedindiana.org/loans/student-loan/.
[8] The Century Foundation, *State student loan programs: a private loan by any other name?*, (Jul. 7, 2026), https://tcf.org/content/report/state-student-loan-programs-a-private-loan-by-any-other-name/.
[9] New America, *Non-Profit student loan scandals*, (Jul. 8, 2009), https://www.newamerica.org/insights/non-profit-student-loan-scandals/.
[10] Iowa Attorney General Thomas J. Miller, *Letter response to Governor Culver regarding Iowa Student Loan Liquidity Corporation*, (Sept. 19, 2008), https://s3.amazonaws.com/new-america-composer/attachments_archive/Iowa%20Attorney%20General%20Report.pdf.
[11] New America, *Higher Ed Watch in Philadelphia Inquirer on taxpayer rip-off*, (Oct. 11, 2006), https://www.newamerica.org/insights/higher-ed-watch-in-philadelphia-inquirer-on-taxpayer-rip-off/.
[12] New America, *Non-Profit Student Loan Scandals*, (Jul. 8, 2009), https://www.newamerica.org/insights/non-profit-student-loan-scandals/.

State-based student lenders have also been found using aggressive debt collection practices on borrowers who have fallen behind—suing thousands of students in order to collect on student loans,[13] forcing borrowers to sign confessions of judgement[14] (which allow the lender, without further notice or hearing, to garnish wages and dip into bank accounts if a borrower falls into default),[15] revoking professional licenses,[16] and even forcing repayment even after a student dies.[17] While state-based private loans oftentimes claim to be more borrower friendly, thousands of borrower complaints submitted to the Consumer Financial Protection Bureau show that this is not always the case. Borrowers report experiencing difficulty with cosigner release and inflexible repayment options from their state-based lender[18] while others report being told there was "no help" when a borrower reached out due to a sudden loss of employment.[19] While state-based lenders may tout their products as more borrower-friendly products, many of these complaints mirror complaints from borrowers struggling with their traditional private student loans, largely because these loans mirror their private counterparts. State-based lenders have already been touting new products that they are hoping to launch in order to meet new demand among students, including "outcomes-based lending products.[20]" Exempting state-based lenders from critical preferred lender rules could open the door to new and potentially problematic products that could be promoted directly to students with little to no transparency and oversight.

Now that the One Big Beautiful Bill Act is law, policymakers should be strengthening protections and increasing transparency for students who need to take on private student loans.

The federal lending changes made by the One Big Beautiful Bill Act are likely to drive more students into the risky private loan market or out of higher education altogether—particularly

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[13] WGBH, *A state agency that issues student loans has sued thousands of borrowers*, (Dec. 16, 2024), https://www.wgbh.org/news/local/2024-12-16/a-state-agency-that-issues-student-loans-has-sued-thousands-of-borrowers.

[14] Des Moines Register, *Suit challenging archaic Iowa debt collection law ends in settlement*, (Oct. 17, 2025), https://archive.is/20251018075833/https://www.desmoinesregister.com/story/news/crime-and-courts/2025/10/17/iowa-debt-collection-lawsuit-settlement/86678822007/.

[15] MarketWatch, *These 'zombie' student-loan organizations still have power over borrowers' lives–and their bank accounts*, (Jul. 25, 2024), https://www.marketwatch.com/story/these-zombie-student-loan-organizations-still-have-power-over-borrowers-lives-and-their-bank-accounts-ddb1aa83.

[16] The New York Times, *When unpaid student loan bills mean you can no longer work*, (Nov. 18, 2017), https://www.nytimes.com/2017/11/18/business/student-loans-licenses.html

[17] The New York Times, *In New Jersey student loan program, even death may not bring a reprieve*, (Jul, 3, 2016), https://www.nytimes.com/2016/07/04/nyregion/in-new-jersey-student-loan-program-even-death-may-not-bring-a-reprieve.html.

[18] Consumer Financial Protection Bureau, *consumer complaint*, (Jun. 5, 2018), https://www.consumerfinance.gov/data-research/consumer-complaints/search/detail/2926759.

[19] Consumer Financial Protection Bureau, *consumer complaint*, (Feb. 22, 2018), https://www.consumerfinance.gov/data-research/consumer-complaints/search/detail/2823012.

[20] The Washington Post, *States look to help with student loans to offset Trump administration limits*, (Jan. 22, 2026), https://www.washingtonpost.com/education/2026/01/22/state-graduate-lending/.

Black students and other low-wealth students.[21] Policymakers should be looking to strengthen protections and transparency for students who need to take on private student loans, including strengthening preferred lending rules to ensure that lenders—regardless of whether or not they are state-based —are not capitalizing on this moment and pushing families further into debt. Unfortunately, S.4097, will exempt an entire sector of lenders from critical preferred lender rules which weaken preferred lender rules making the entire private lending system even more opaque for prospective borrowers. Policymakers must reject any effort to weaken these rules or exempt certain student loan lenders—regardless of whether they are a state-affiliated entity—from preferred lender rules. If policymakers are concerned that preferred lender rules are making it more difficult for students to understand the full scope of their loan options, they should address those concerns via modifications to the preferred lender regulations that apply to all lenders, rather than via an unwarranted regulatory carveout to a subset of lenders based solely on their state affiliation.

Congress must learn from the past and ensure that safeguards are strengthened and students and families are protected. **Therefore, we strongly urge the Committee to vote no on S. 4097.**

Sincerely,

Protect Borrowers
AFT: Education, Healthcare, Public Services
American Association of University Women (AAUW)
Legal Defense Fund
National Association of Social Workers
New America Higher Education Program
Project on Predatory Student Lending
Student Debt Crisis Center
The Century Foundation
The Debt Collective
The Education Trust
The Hope Center for Student Basic Needs
United States Student Association
Young Invincibles

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[21] The Legal Defense Fund, *LDF's testimony before Congress reveals the stakes of education policy for black students*, (Dec. 12, 2025), https://legaldefensefund.substack.com/p/ldfs-testimony-before-congress-reveals.