

FTC Facts

For Consumers

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FEDERAL TRADE COMMISSION
FOR THE CONSUMER

www.ftc.gov ■ 1-877-ftc-help

Student Loans: Avoiding Deceptive Offers

A joint publication of the Federal Trade Commission and the U.S. Department of Education

An education beyond high school is an investment in your future. It can be expensive and often requires you or your family to take out loans to help pay for it.

Student loans fall into two categories, federal loans and private loans.

- Federal loans, which are subject to oversight and regulation by the federal government, include:
 - Direct Loans, where the U.S. Department of Education is the lender;
 - Federal Family Education Loans (FFEL), where private lenders make loans backed by the federal government; and
 - Federal Perkins Loans.
- Private loans, sometimes referenced as “alternative loans,” are offered by private lenders and do not include the benefits and protections available with federal loans.

Whether you’re taking out a new student loan or consolidating existing education loans, the Federal Trade Commission (FTC), the nation’s consumer protection agency, and the U.S. Department of Education (ED), the agency that oversees federal

student loans, want you to know how to spot potentially deceptive claims or business practices some private companies may use to get your loan business.

PRIVATE LOANS

Private companies may offer you loans and other forms of financial assistance for your education. They often use direct mail marketing, telemarketing, television, radio, and online advertising to promote their products.

Paying for your education is a serious long-term financial obligation; that’s why comparing the costs of different ways of financing your education is so important. Private loans tend to have higher fees and interest rates than federal government loans. Private loans also do not offer the opportunities for cancellation or loan forgiveness that are available on many federal loan programs. So it makes good financial sense to exhaust your federal loan options (as well as grants and scholarships) before considering loans from any private companies. To learn more about federal government loans, visit www.FederalStudentAid.ed.gov.

HOW TO SPOT DECEPTIVE PRIVATE STUDENT LOAN PRACTICES

If you are considering a private student loan, it's important to know whom you're doing business with and the terms of the loan. The FTC and ED offer these tips to help you recognize questionable claims and practices related to private student loans.

- Some private lenders and their marketers use names, seals, logos, or other representations similar to those of government agencies to create the false or misleading impression that they are part of or affiliated with the federal government and its student loan programs.
- ED does not send advertisements or mailers, or otherwise solicit consumers to borrow money. If you receive a student loan solicitation, it is not from ED.
- Don't let promotions or incentives like gift cards, credit cards, and sweepstakes prizes divert you from assessing whether the key terms of the loan are reasonable.
- Don't give out personal information on the phone, through the mail, or over the Internet unless you know with whom you are dealing. Private student lenders typically ask for your student account number — often your Social Security number (SSN) or Personal Identification Number (PIN) — saying they need it to help determine your eligibility. However, because scam artists who purport to be private student lenders can misuse this information, it is critical to provide it or other personal information only if you have confidence in the private student lender with whom you are dealing.
- Check out the track record of particular private student lenders with your state Attorney General (www.naag.org), your local consumer protection

agency (www.consumeraction.gov), and the Better Business Bureau (www.bbb.org).

SPECIAL CONSIDERATIONS FOR CONSOLIDATION OF FEDERAL LOANS

Student loan consolidation is combining several loans into one with a new repayment term and interest rate. This is generally offered in connection with federal loans. Here's how to help identify potential problems related to loan consolidation:

- Avoid lenders and marketers who use high-pressure sales tactics. Some marketers pitch that “your interest rates may go up if you do not consolidate immediately!” Whether and when interest rates for consolidating your loans will change depends on what type of loans you have. Look at your loan documents to determine whether the interest rates are fixed or variable:
 - If all of your education loans have fixed interest rates, there may be no deadline to consolidate.
 - If some or all of your loans have variable interest rates, when you consolidate into a fixed loan it may affect the interest rate of your loan. ED publishes new variable rates for some federal loans each July 1st. The annual rate changes can raise or lower the interest rate offered on a consolidated loan because the consolidation interest rate will be the weighted average of all loans consolidated.

Whether or not you have a targeted timeframe, take your time to determine whether consolidating is right for you.

- Some lenders impose restrictions on promised discounts. Some may disclose these limits only in the fine print. Read the fine print in your loan documents to find these types of conditions:

- Some lenders lower the interest rate on your consolidated loan, but only if you opt for automated payments from your checking account.
 - Other lenders discount the interest rate on your consolidated loan, but only if your loan has at least a specified minimum loan balance.
 - Still others agree to lower the interest rate on your consolidated loan, but only if you remain current on your payments for the life of the loan. You may want to consider loans with more immediate discounts, a shorter on-time payment period for interest rate discounts, or an additional discount for signing up for automatic payments.
- Some lenders sell consolidated loans to other companies. Because benefits of consolidated loans — like promised discounts — may not transfer, you may lose benefits if the lender sells your loan. Ask the lender whether the terms of your loan will change if it is sold.
 - Be cautious about consolidating federal loans and private loans into one private loan. The result of consolidating all loans into one non-federal private loan means that you lose all the benefits and protections provided in the federal loan programs.
 - Consolidating a Perkins loan may not be in your best interest. You may lose unique deferment and cancellation rights available to Perkins loan borrowers. For more information about these rights go to <http://www.ed.gov/offices/OSFAP/DCS/perkins.deferment.cancellation.html>.
 - Frequent consolidation after borrowing may impact timelines you need to meet to qualify for these benefits.

FOR MORE INFORMATION OR TO FILE A COMPLAINT

To learn about federal student loans, write the U.S. Department of Education at:

U.S. Department of Education

Federal Student Aid Information Center
 P.O. Box 84
 Washington, DC 20044-0084
 800-4-FED-AID (TTY: 800-730-8913)
www.FederalStudentAid.ed.gov

Notify the Federal Student Aid Ombudsman at 1-877-557-2575 or www.ombudsman.ed.gov if you have a complaint that you cannot resolve with your lender.

For questions about a particular lender, contact the federal agency with jurisdiction over that lender:

Office of the Comptroller of the Currency

Regulates banks with “national” in the name or “N.A.” after the name:

Office of the Ombudsman
 Customer Assistance Group
 1301 McKinney Street, Suite 3450
 Houston, TX 77010
 800-613-6743 toll-free
www.occ.treas.gov

Board of Governors of the Federal Reserve System

Regulates state-chartered banks that are members of the Federal Reserve System, bank holding companies, and branches of foreign banks:

Federal Reserve Consumer Help
 PO Box 1200
 Minneapolis, MN 55480
 888-851-1920 (TTY: 877-766-8533) toll-free
ConsumerHelp@FederalReserve.gov

Federal Deposit Insurance Corporation

Regulates state-chartered banks that are not members of the Federal Reserve System:

Division of Supervision & Consumer Protection
550 17th Street, NW
Washington, DC 20429
877-ASK-FDIC (275-3342) toll-free
www.fdic.gov

National Credit Union Administration

Regulates federally chartered credit unions:

Office of Public and Congressional Affairs
1775 Duke Street
Alexandria, VA 22314-3428
703-518-6330
www.ncua.gov

Office of Thrift Supervision

Regulates federal savings and loan associations and federal savings banks:

Consumer Programs
1700 G Street, NW
Washington, DC 20552
800-842-6929 toll-free
www.ots.treas.gov

Federal Trade Commission

Regulates non-bank lenders:

Consumer Response Center
600 Pennsylvania Avenue, NW
Washington, DC 20580
877-FTC-HELP (382-4357) toll-free
www.ftc.gov

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

Federal Student Aid, an office of the U.S. Department of Education, administers the federal student financial aid — grants, loans, and work-study programs — available for education beyond high school. Federal Student Aid interacts with postsecondary schools, financial institutions and other participants in the student aid programs to deliver services that help students and families plan and pay for college.

To learn more about Federal Student Aid and how to pay for college, visit www.FederalStudentAid.ed.gov or call 1-800-4-FED-AID.

The Federal Student Aid Ombudsman is available to individuals with specific complaints. To learn more about the Ombudsman, visit www.ombudsman.ed.gov or call 1-877-557-2575.

*Federal Trade Commission
Bureau of Consumer Protection
Division of Consumer and Business Education*