

Statement of Jonathan Avidan

Submitted to the
U.S. Senate Committee on Banking, Housing, and Urban Affairs

"Paying for College: The Role of Student Lending"

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10:00 am

Chairman Dodd, Ranking Member Shelby, my own Senator from Pennsylvania, Senator Casey, Members of the Committee, thank you for the opportunity to appear here today to discuss private student loan lenders.

My name is Jonathan Avidan, I am 25 years old, recently married and living in Langhorne, Pennsylvania. I attended Boston University and graduated in May 2004 with a Bachelors Degree in Business Administration. I work for Calle Financial Network, an investment advisory business, as its Director of Operations.

My parents, like the majority of middle class Americans, struggled with the enormous challenge of spiraling college costs during my first two years at Boston University. Prior to my junior year, they told me they could not afford to pay my tuition anymore. I was faced with a grim choice - go home and enroll in my local community college, or stay at Boston University. I wish I knew at the time that the choice to stay would be the most expensive decision of my life.

I was able to borrow \$18,000 of federal loans at a fixed 3.0%, but this only covered a fraction of school costs. I would be forced to find the vast majority of funds through private loans - over \$60,000 for the remaining two years. I have been making payments every month for the past two years, but the balance has managed to increase to \$69,000.

I was told up front that the original 6.36% variable interest rate was capped at 10.0% and that it was tied to the prime rate. How many 20 year olds know what that

really means? The truth was... the variable rate was not capped. In fact, the rate was the current LIBOR rate plus a margin of 4.85%. The 4.85% was derived, at the time, from my parent's credit score, and our combined credit-worthiness. I cannot believe that the original terms of the promissory notes could not be reevaluated after five years. Then, I was 20 years old and I had no credit history or income. Now, I am 25, with a flawless credit history and a credit score over 720 points. I deserve a better margin now than I did five years ago. Currently the rate is 9.92%.

Right now, despite generous and timely raises and my wife's income, we are hard pressed to keep up with the combination of rate increases and graduated payments. My private student loan payments, \$250 when I first graduated, have gone up over 200% in the last 24 months. Currently, I am paying \$600 a month. By April 2009, my payment will be approximately \$1000/month. I won't begin to reduce the principal for another two years and my expected payoff date is November 2024. When it's all over and I paid off my debt to these lenders, I will have paid back close to triple the amount that I borrowed.

As a new borrower, I purchased a used car for \$18,000 at 10.1% interest for six years – I find it rather remarkable that the rates on my private loans would come so close to the percentage rate on my used car. Surely, I am a better risk than a four year old sedan.

Ultimately, my life is completely affected by my private student loans. Instead of renting a one-bedroom apartment, my wife and I could be taking a mortgage on a

house. Instead of decades of interest, I could be contributing to an IRA or putting money away in a 529 Plan for my children. Instead of being forced to work right out of school, so I could afford to pay my private loans, I could have pursued a graduate degree at Wharton, a life-long dream of mine.

Our country is supposed to be a country of opportunity for anyone that has a dream. In the world we live in today, receiving an undergraduate degree is increasingly a prerequisite for success. By allowing these companies to voraciously apply wide margins to the money they lend, we risk crippling a generation with massive debt. These companies have taken advantage of an unregulated market and young Americans who want to better themselves through higher education.

Young men and women graduating from colleges around the nation are supposed to strengthen the economy once they enter the work force. But how are we supposed to help the economy when we are struggling to help ourselves? I know I am only one voice and one story, but I am sure all of you know that it is young people like myself that are the future of this country and it is only getting worse. Thank you.

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