CPA
Practice Advisor

The Consumer Financial Protection Bureau (CFPB) has released a report outlining widespread servicing failures reported by both federal and private student loan borrowers. Consumers describe companies using a wide range of sloppy, patchwork practices that can create obstacles to repayment, raise costs, cause distress, and contribute to driving struggling borrowers to default.

The Bureau has made it a priority to take action against companies that are engaging in illegal servicing practices, and that ongoing work includes addressing many of the problems outlined in today's report. The Bureau also intends to explore potential industry-wide rules to increase borrower protections. This work builds on an interagency framework for market-wide reform released today in coordination with the U.S. Department of Education and the U.S. Department of the Treasury.

"With one out of four student loan borrowers struggling to repay their loans or

grown rapidly in the last decade. The total volume of outstanding student loans has more than doubled, rising from less than $600 billion in 2006 to more than $1.2 trillion today. One in four student loan borrowers are currently in default or struggling to stay current on their loans, despite the availability of income-driven repayment options for the vast majority of borrowers.

Servicers are a critical link between borrowers and lenders. They manage borrowers' accounts, process monthly payments, and communicate directly with borrowers. When facing unemployment or other financial hardship, borrowers must contact student loan servicers to enroll in alternative repayment plans, obtain deferments or forbearances, or request a modification of loan terms. The servicer is often different than the lender, and a borrower typically has no control over which company services a loan.

In May, the CFPB launched a public inquiry into student loan servicing practices that may make paying back loans a stressful or harmful process for borrowers. The CFPB also sought input on potential solutions to improve service for student loan borrowers in repayment. In response to the public inquiry, the Bureau received over 30,000 public comments, which informed the recommendations in today's report.

As millions of student loan borrowers struggle to repay their student loans, many consumers reported to the CFPB that servicers are failing to provide the basic level of service necessary to meet borrowers' needs. Consumers and other stakeholders report problems such as servicers losing paperwork or misapplying payments. Borrowers say that when errors arise, they find it difficult to have them corrected. Many federal and private loan borrowers report experiencing serious problems accessing affordable repayment options or other repayment alternatives to avoid default. These anecdotes in combination with findings in the CFPB's examinations and investigations of servicers lead the Bureau to be concerned that problems are widespread.

establish clear and consistent industry-wide standards. The Joint Statement of Principles includes the following recommendations:

- **Create consistent, industry-wide standards for the entire servicing market:** While student loan servicing is subject to a number of state and federal laws, the market lacks consistent standards that cover the servicing of all private and federal student loans. Currently there is a patchwork of student loan servicing practices across the market, which includes loans held by private investors, banks, and the federal government. Although the terms of these products can vary, the process of repaying these debts is similar for all student loan borrowers. Consistent standards for quality service for all borrowers can help ensure that consumers know what to expect from their student loan servicer and that distressed borrowers can access available assistance.

- **Hold servicers accountable:** Regulators must continue to act to protect borrowers if errors occur or if servicers break the law. Consumers should be able to access adequate customer service to answer questions and resolve errors. Today's framework also calls for continuing to build coordination among federal and state agencies around the enforcement of federal and state consumer financial laws, higher education laws and regulations, and federal servicing contracts made by the U.S. Department of Education.

- **Provide access to clear, timely information:** Borrowers expect student loan servicers to inform them about repayment options and help them enroll in alternative payment plans. This framework calls for information provided by servicers to be accurate and actionable, ensuring borrowers are empowered to make choices that encourage borrower success and mitigate defaults.

- **Improve publicly available data:** Little information is publicly available about the performance of student loans, the utilization of specific repayment options such as income-driven repayment plans for federal student loans, and the outcomes for

stakeholders to protect consumers in the student loan servicing market.

In addition, today's report provides new insights into how certain student loan servicing practices may be causing borrower harm. These issues include: costly surprises and runarounds; lack of assistance for struggling borrowers; and setbacks for older Americans, military borrowers, and consumers with disabilities.

Costly Surprises and Runarounds

Consumers with federal and private student loans report a range of problems around servicers making mistakes, records getting lost, payments being processed too slowly, or servicer personnel not having the latest information about a consumer's account. Borrowers report that these issues include:

- **Poor customer service and bad information causing borrowers distress:** Borrowers report problems accessing basic account information, receiving conflicting information about repayment programs and loan features, and receiving inaccurate billing statements. When errors occur, borrowers report problems getting them resolved and a lack of recourse. Bad information can lead to missed payments, lost benefits, and other breakdowns that can damage borrowers' credit and make student debt more expensive.

- **Servicing transfers leading to surprise fees and lost benefits:** More than 10 million borrowers have had their servicer change in the past five years. Consumers and industry report, however, that servicing transfers can create confusion when companies have different policies and procedures related to payment posting, allocation, and processing, as well as the administration of certain borrower benefits. When servicers change, payments may be lost, consumers may incur surprise late fees, and processing problems and missing account records can knock borrowers off track on repaying their loans.

- **Roadblocks to refinance keeping borrowers tied to high-rate loans:** Borrowers

unexpectedly puts their loan in default status. These borrowers report paying on time each month, only to discover that their loan has been placed into default and sent to a debt collector following the death or bankruptcy of a co-signer, causing damage to their credit.

- **Payment processing practices increasing fees and penalizing borrowers:** Borrowers expect servicers to process monthly payments and apply them to the loans in their account correctly, in a timely manner and without needlessly increasing costs. Borrowers report being surprised that some servicers allocate payments in ways that maximize costs and fees. For borrowers trying to get ahead by paying more than they owe, these practices can increase interest charges and make it take longer to pay back a student loan.

Lack of Assistance for Struggling Borrowers

The CFPB estimates that there are nearly 8 million federal and private student loan borrowers in default, representing more than $110 billion in balances. Millions more are falling behind and struggling to repay their loans. These borrowers may need additional support from servicers to understand and access their repayment options and avoid default. Stakeholders also reported to the Bureau that companies may not be investing in the resources necessary to service large numbers of delinquent loans. Issues reported to the Bureau include:

- **Servicing failures may contribute to millions of distressed borrowers defaulting:** The U.S. Department of Education offers numerous plans to borrowers with federal student loans to make payments more affordable. These include options that let borrowers set their monthly payment based on their income. According to a recent study, 70 percent of the federal Direct Loan borrowers in default met the income requirements for lower monthly payment under an income-driven repayment plan. This raises serious concerns that millions of borrowers may not be receiving important information about repayment options

three in five borrowers in income-driven repayment plans do not recertify on time although they are eligible. Borrowers report that inadequate renewal notices can contribute to the missed deadlines. Many consumers in these repayment plans also report unexpected payment spikes and interest charges due to servicer delays around the recertification process. Others reported that servicers recommended alternative short-term payment programs, such as forbearance, that may be more expensive over time.

- **Debt relief scams targeting distressed borrowers:** Problems with servicing can leave distressed borrowers without the tools to help them avoid default. Student debt relief scams prey on these borrowers, charging up-front fees while promising to enroll borrowers in free federal consumer protections, including income-driven repayment plans.

Setbacks for Older Americans, Military Borrowers, Veterans, and Consumers with Disabilities

Student loan servicing can affect certain special populations, such as servicemembers, veterans, and older consumers, at an increased level due to unique circumstances associated with these individuals.

- **Servicing practices hindering servicemembers and veterans with disabilities seeking to access important benefits:** Servicemembers report poor servicing practices that make it harder for them to access the benefits they've earned through military service, such as difficulties obtaining interest rate reductions and problems enrolling in a beneficial repayment program. The Bureau has also heard from service-disabled veterans who ended up with damaged credit after their loan discharge was incorrectly reported to the credit reporting agencies.

- **Servicing problems may put older consumers' retirement at risk:** Poor servicing

discharging student debt: Some borrowers with disabilities report providing information about their financial circumstances to servicing personnel, but never being told about options to discharge student debt due to their "Total and Permanent Disability," which entitles them to certain loan forgiveness benefits. In cases like these, borrowers with disabilities who have limited financial resources may make unnecessary extra payments toward their loans.

Help For Student Loan Borrowers

Student loan borrowers can get advice on student loan repayment options by using the CFPB's Repay Student Debt tool. This interactive resource offers a step-by-step guide to navigate borrowers through their repayment options, especially when facing default. The new version of this tool, launched earlier this year, provides borrowers with sample instructions to send to their student loan servicer to protect themselves against payment processing problems and auto-defaults. It also has information about how to request a lower monthly payment when experiencing financial distress. Student loan borrowers experiencing problems related to repaying student loans or debt collection can also submit a complaint to the CFPB.

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