December 3, 2013

**CONSUMER FINANCIAL PROTECTION BUREAU TO OVERSEE NONBANK STUDENT LOAN SERVICERS**

The Consumer Financial Protection Bureau (CFPB) issued a rule today that will allow the CFPB to supervise certain nonbank student loan servicers for the first time. The rule will bring new protections to a rapidly growing market that has seen a rise in borrower delinquency in recent years, expanding oversight of the companies with which borrowers interact.

**Student Loans by the Numbers**

- **$1.2 trillion:** Approximate amount of outstanding student loan debt—second only to mortgages in household debt
- **7 million:** Estimated number of Americans who are currently in default on a student loan
- **40 percent:** Amount of American households headed by someone under 35 that have student loan debt and are affected by student loan servicing
- **1 in 5:** U.S. households that have student loans and are affected by student loan servicing
- **Over 49 million:** Number of borrower accounts managed by servicers subject to new exam authority

**Overview**

The cost of college education and the number of Americans pursuing that education have risen consistently in the past several years. To help pay, more Americans have turned to both federal and private student loans. Federal student loans currently make up over eighty-five percent of the market. Both financial institutions and the federal government often use nonbanks to service student loans. The CFPB is already supervising the student loan servicing conducted by the nation's largest depository institutions.

Loan servicers are responsible for collecting payments from borrowers. These servicers are often different than the lender itself, and a borrower has no control or choice over which company services a loan. Student loan servicers' duties typically include:

- Sending monthly statements and collecting payments;
- Maintaining records of payments and balances;
- Answering borrower questions;
- Reporting borrower account activity to consumer reporting agencies; and
- Working with borrowers on alternative payment options like income-based repayment or deferments to avoid default.

**New Oversight**

The CFPB's rule subjects any nonbank student loan servicer that handles more than one million borrower accounts to CFPB supervisory authority. The Bureau estimates that it will now have authority to supervise the seven largest student loan servicers. Combined, those seven are responsible for more than 70 percent of the activity in the nonbank student loan servicing market. Nonbank student loan servicers, regardless of size, continue to be subject to the Bureau's enforcement jurisdiction. Servicers who are not considered "larger participants" may still be subject to the Bureau's supervisory authority if the Bureau has reasonable cause to determine the servicer poses risk to consumers.

- **CFPB supervision activities will generally include gathering reports from and conducting examinations of supervised entities.** The examination process includes a review of information, data analysis, on-site examinations, and regular communication with supervised entities, as well as follow-up monitoring. When necessary, examiners will coordinate and work closely with the CFPB's enforcement staff to take appropriate enforcement actions to address harm to consumers.

- **Examiners will make sure all relevant federal consumer financial laws are being followed by student loan servicers.** These laws may include the Fair Credit Reporting Act, Electronic Fund Transfer Act, Equal Credit Opportunity Act, and prohibitions on unfair, deceptive or abusive acts or practices. These laws not only protect consumers but responsible servicers as well by ensuring that all companies are playing by the rules.

- **The Bureau will ensure that banks and nonbanks are following the same rules in the student loan servicing market.** Before this rule, CFPB examiners supervised large bank student loan servicers to ensure that they were complying with federal consumer financial laws, while nonbank student loan servicers were not similarly being examined. This rule makes sure that both bank and larger nonbank student loan servicers are held accountable for how they treat consumers.

- **The rule will cover servicing of both federal and private student loans.** Federal loans and private student loans are serviced by nonbanks. Any nonbank servicer that handles more than one million borrower accounts will be subject to supervisory authority under the rule.

- **The Bureau will be able to supervise the entire life of a private student loan.** The Bureau already supervises private student loan origination and debt collection practices. With this rule, the CFPB will be able to supervise the entire life of private student loans—from origination through servicing to debt collection.

<u>**Servicing Issues Reported to CFPB**</u>

The CFPB recognizes that not every servicer is the same, and that there are servicers in the market that are fulfilling their responsibilities. However, the recent annual report by the Bureau's Student Loan Ombudsman identified a broad range of concerns voiced by student loan borrowers in complaints to the CFPB. Borrowers submitted complaints to the Bureau highlighting:

- **Prepayment Stumbling Blocks:** Since options to refinance high-rate private student loans are limited, many consumers attempt to pay off their loans in order to reduce the amount of interest owed over the life of the loan. But many consumers express confusion about how to pay off their loans early. For example, borrowers complained that servicers applied payments in excess of the amount due across all their loans, not the highest-interest rate loan that they would prefer to pay off first.

- **Partial Payment Snags:** When borrowers have multiple loans with one servicer and are unable to pay their bill in full, many servicers instruct borrowers to make whatever payment they can afford. Many complaints described how servicers often divide up the partial payment and apply it evenly across all of the loans in their account. This maximizes the late fees charged to the consumer, and it can exacerbate the negative credit impact of a single late payment.

- **Servicing Transfer Surprises:** When borrowers' loans are transferred between servicers, borrowers say they experience lost paperwork, processing errors that result in late fees, and interruptions of routine communication, such as billing statements. Consumers complained that payment-processing policies can vary depending on the servicer. And, consumers said when they make decisions on the previous servicer's practices, they can get penalized.

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*The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit [www.ConsumerFinance.gov](http://www.ConsumerFinance.gov).*