APRIL 2014

Mid-year update on student loan complaints

Consumer Financial Protection Bureau

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1. Executive summary

- The CFPB received more than 2,300 private student loan complaints and more than 1,300 debt collection complaints related to student loans between October 1, 2013, and March 31, 2014.

- This mid-year update discusses specific co-signer issues reported by borrowers. Approximately 90% of private student loans were co-signed in 2011. Many private student lenders advertise an option to release a borrower's co-signer after a certain period of time of on-time payments. Complaints from private student loan borrowers describe the obstacles they face when seeking to obtain these releases. In addition, complaints indicate that borrowers often have to apply for a release, but lenders and servicers generally do not make the criteria for co-signer release clear and transparent.

- Many private student loan contracts include an option for lenders to demand the full balance of a loan when a borrower's co-signer has died or filed for bankruptcy. Complaints from private student loan borrowers suggest that industry participants are automatically placing loans in default – even when a borrower is paying as agreed.

- The report describes potential alternatives to "auto-defaults" upon co-signer death and bankruptcy, including assessing the borrower for co-signer release and maintaining the existing payment schedule, providing the opportunity to identify a new co-signer (such as the spouse of the deceased parent), or providing time to refinance the loan.

2. About this report

The Dodd-Frank Wall Street Reform and Consumer Protection Act established a student loan ombudsman within the Consumer Financial Protection Bureau. Pursuant to the Act, the ombudsman shall compile and analyze data on private student loan complaints and make appropriate recommendations to the Secretary of the Treasury, the Director of the Consumer Financial Protection Bureau, the Secretary of Education, and Congress.

CFPB began accepting consumer complaints about private student loans in March 2012 and private student loan complaint data were added to CFPB's public Consumer Complaint Database in March 2013.

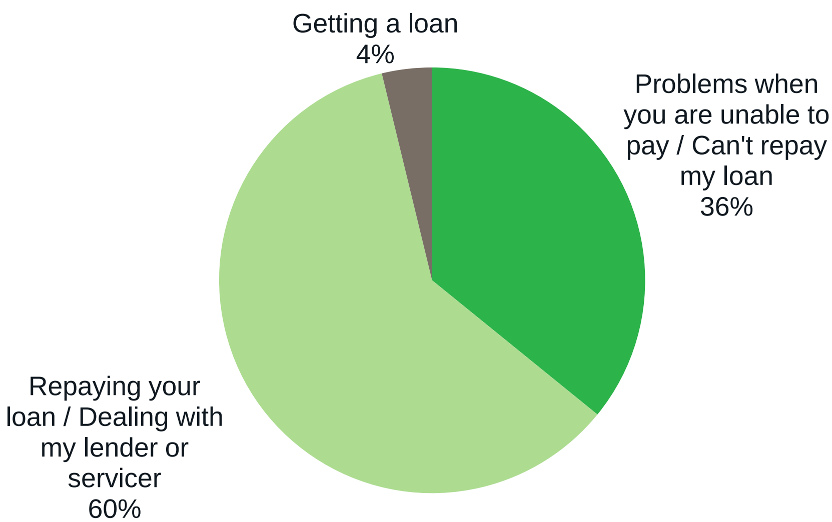
This report analyzes more than 2,300 private student loan complaints and more than 1,300 debt collection complaints related to student loan debt submitted between October 1, 2013, and March 31, 2014. This report also offers analysis and discussion to address issues reported by consumers in the student loan marketplace.

Rohit Chopra
Student Loan Ombudsman
Consumer Financial Protection Bureau

3. Student loan complaints

From October 1, 2013, through March 31, 2014, the CFPB received more than 2,300 private student loan complaints.

TABLE 1: PRIVATE STUDENT LOAN ISSUES REPORTED BY CONSUMERS FROM OCTOBER 1, 2013 – MARCH 31, 2014



Note: Prior to December 18, 2013, consumers submitting student loan complaints could select from three types of complaint categories: Getting a loan, Repaying your loan, and Problems when you are unable to pay. Beginning on December 18, 2013, the student loan complaint form was updated.

Consumers now select from the following three types of complaint categories: Getting a loan, Can't pay my loan, and Dealing with my lender or servicer. This report includes the types of complaints submitted under both the original and updated forms. This chart reflects complaints where (1) the consumer identifies the sub-product as non-federal student loan and (2) the identified company verified a relationship with the consumer.

From October 1, 2013, through March 31, 2014, the CFPB received more than 1,300 debt collection complaints related to student loan debt.

TABLE 2: TOP REPORTED ISSUES IN STUDENT LOAN DEBT COLLECTION COMPLAINTS FROM OCTOBER 1, 2013 – MARCH 31, 2014

Issue	Percentage of Total Complaints	Percentage of Federal Student Loans	Percentage of Private Student Loans
Communication tactics	28%	27%	29%
Continued attempts collect debt not owed	27%	25%	29%
Disclosure verification of debt	13%	14%	13%
False statements or representation	12%	13%	10%
Improper contact or sharing of info	14%	14%	13%
Taking/threatening an illegal action	7%	7%	7%

Information about consumer complaints, including information about student loan and debt collection complaints, is available to the public, through the CFPB's public Consumer Complaint Database, launched on June 19, 2012.

A complaint is listed in the database after the company responds to the complaint or after the company has had the complaint for 15 calendar days, whichever comes first. If a company demonstrates within 15 calendar days that it has been wrongly identified, no data for that complaint will be posted unless and until the correct company is identified. Complaints can be removed if they do not meet all of the publication criteria.

The database contains anonymized complaint data provided by consumers in the complaint process, including the type of complaint, the date of submission, the consumer's zip code, and the company that the complaint concerns. The database also includes information about the actions taken by a company in response to a complaint – whether the company's response was timely, how the company responded, and whether the consumer disputed the company's response. The database does not include consumers' identity information. The database includes web-based and user-friendly features such as the ability to filter data based on specific search criteria; aggregate data in various ways, such as by complaint type, company, location, date, or any combination of available variables; and download data.

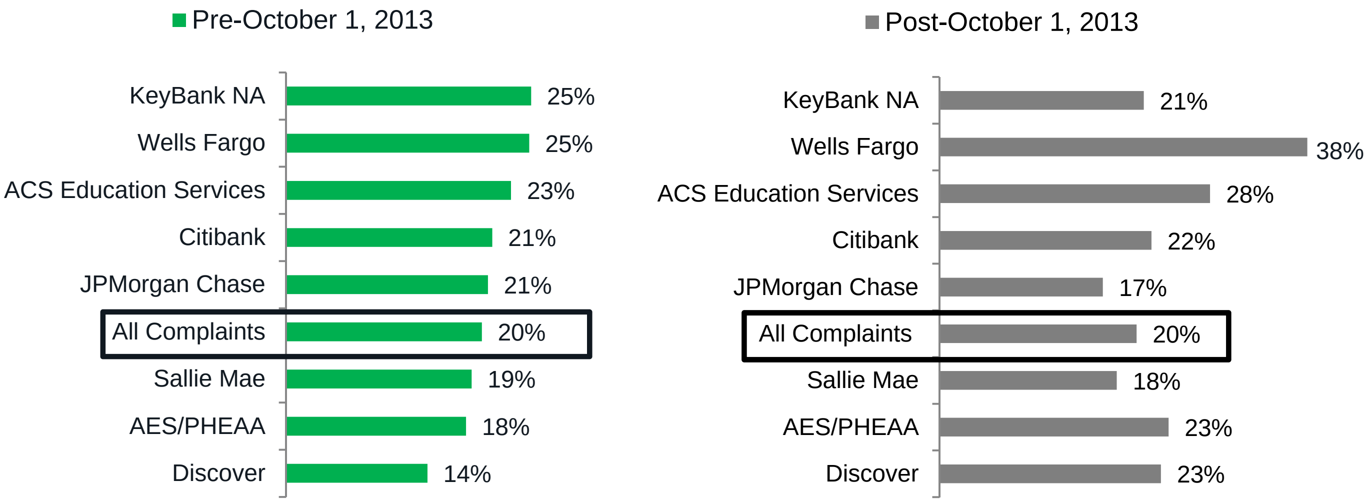
The following tables are based on complaints submitted from October 1, 2013, through March 31, 2014, as exported from the public Consumer Complaint Database as of April 16, 2014. The database is live and updates nightly.

TABLE 3: TOTAL PRIVATE STUDENT LOAN COMPLAINTS BY COMPANY

Company	Oct. 2012 - March 2013	Oct. 2013 - March 2014	Percent Change
Sallie Mae	659	995	51%
JPMorgan Chase	79	112	42%
All Complaints	1418	1968	39%
AES/PHEAA	150	174	16%
Citibank	53	58	9%
Wells Fargo	106	115	8%
Discover	101	105	4%
ACS Education Services	55	55	0%
KeyBank NA	60	50	-17%
Nelnet	20	13	-35%

Note: This chart reflects student loan complaints where (1) the consumer identifies the sub-product as non-federal student loan and (2) the identified company verified a relationship with the consumer. "All Complaints" includes companies not listed in this chart.

TABLE 4: PRIVATE STUDENT LOAN DISPUTE RATES BY COMPANY



Note: Table 4 includes student loan complaints where (1) the consumer identifies the sub-product as non-federal student loan, (2) the identified company verified a relationship with the consumer, (3) the consumer received a response subject to consumer review, (4) and the consumer disputed the company's response for companies with the highest dispute rates with more than 65 complaints in the Consumer Complaint Database. The CFPB began accepting non-federal student loan complaints on March 5, 2012. Complaints sent to a company after January 31, 2014, were not included in this calculation.

TABLE 5: RANKING OF COMPANIES BY STUDENT LOAN DEBT COLLECTION COMPLAINT VOLUME FROM OCTOBER 1, 2013 – MARCH 31, 2014

Federal Student Loans	Private Student Loans
1. Sallie Mae	1. Sallie Mae
2. Performant Financial Corporation	2. Expert Global Solutions
3. Expert Global Solutions	3. AES/PHEAA
4. West Corporation	4. Williams & Fudge
5. ConServe	5. SIMM Associates

Note: This chart reflects debt collection complaints where (1) the consumer identifies the sub-product as non-federal or federal student loan and (2) the identified company verified a relationship with the consumer.

4. Issues faced by borrowers

SOURCES OF INFORMATION

To identify the range of issues faced by student loan borrowers, the report relies primarily on complaints received by the CFPB. We reviewed other information, such as comments submitted by the public in response to requests for information, submissions to the "Tell Your Story" feature on the CFPB's website, and input from discussions with consumers, regulators and law enforcement agencies, and market participants.[1]

LIMITATIONS

Readers should note that this report does not suggest the prevalence of the issues described as they relate to the entire student loan market. The information provided by borrowers helps to illustrate where there is a mismatch between borrower expectations and actual service delivered. Representatives from industry and from borrower assistance organizations will likely find the inventory of borrower issues helpful in further understanding the diversity of customer experience in the market.

ISSUE HIGHLIGHT: CO-SIGNERS OF PRIVATE STUDENT LOANS

Since accepting complaints on private student loans in March 2012, issues related to co-signers have routinely emerged. In this mid-year update, our discussion focuses on this subset of issues.

[1] See, for example, Consumer Financial Protection Bureau, *Request for Information Regarding an Initiative to Promote Student Loan Affordability*, 78 Fed. Reg. 13327, Docket ID CFPB-2013-0004, (February 27, 2013).

According to a report published by the CFPB and the Department of Education, lenders are increasingly originating loans that require a co-signer. In 2008, 67% of private student loans were co-signed, often by a parent or grandparent. By 2011, over 90% of loans were co-signed.[2]

Even when a co-signer is not required, obtaining one can lead to a lower interest rate, since the co-signer is also obligated to repay the loan. Several industry participants advertise an option for borrowers to release their co-signers from the loan obligation, often after a certain period of on-time payment.

In addition, many private student loan contracts contain provisions that provide the lender or servicer the option to place a borrower in default under certain circumstances. For instance, contracts permit a lender or servicer to place a loan in default and accelerate the full balance of the loan upon the death or bankruptcy filing of a co-signer, regardless of whether the loan was in good standing. Below we describe these issues found in complaints related to co-signer issues in more detail.

Complications with Co-signer Release

Borrowers have submitted complaints to the CFPB about problems releasing co-signers, even though the benefit was prominently advertised prior to the origination of the loan. Generally, creditors advertise that release of a co-signer is available after a certain period, often a designated number of on-time payments.

In last year's mid-year report, we noted a complaint we received from a borrower whose co-signer release challenges persisted over a long period of time.[3] At the time of origination, the lender stated they would release his co-signer after he made 28 on-time payments. After making these payments, the consumer learned that 36 payments were required before a co-signer could be released. After making 36 payments the consumer requested release of his co-signer only to find out that the policy had changed and now required 48 on-time payments before he could apply to obtain the release of the co-signer.

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[2] Consumer Financial Protection Bureau, *Private Student Loans*, available at http://files.consumerfinance.gov/f/201207_cfpb_Reports_Private-Student-Loans.pdf (August 2012).

[3] See Consumer Financial Protection Bureau, *Mid-year snapshot of private student loan complaints*, available at http://files.consumerfinance.gov/f/201308_cfpb_complaint-snapshot.pdf (July 2013).

Borrowers continue to report to the CFPB about barriers when pursuing a co-signer release. For example, consumers note that required forms are often not available on websites or in an electronic form. In addition, consumers' complaints suggest that servicers do not seem to be proactively notifying consumers about the specific requirements to submit a request for a release.

Consumers report that many lenders and servicers conduct credit checks before releasing a co-signer, but they generally do not reveal the minimum qualification standards, such as a credit score threshold. The CFPB has received complaints from borrowers who have been denied co-signer releases for unknown reasons or for technical reasons that disqualify them. As noted below, the inability to release a co-signer can lead to unexpected defaults.

Automatic Default Upon Death

Since accepting complaints on private student loans, we continue to receive reports from borrowers discovering that they are in default, when their co-signer, often a parent or grandparent, dies. Some consumers assume that death of a co-signer will result in a release of the co-signer's obligation to repay. Consumers describe their confusion when they receive notices to pay in full since they believed their loan to be in good standing and current.[4]

Consumers also submitted complaints describing how debt collectors threaten to place liens on property or other assets if the decedent's family members or estate administrators do not immediately pay the loan in full. But, private student loan borrowers have submitted complaints describing debt collectors' attempts to collect from a co-signer's estate even after the estate has been closed and settled.

Bankruptcy-Triggered Default

Some borrowers, whose loans are current, have reported to us that they are startled when receiving phone calls from a debt collector telling them their loan is in default, because their co-signer has filed for bankruptcy protection. Some co-signers are likely unaware that their child's loan would be put into default when they pursued bankruptcy protection.

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[4] Like other market participants, we will periodically refer to this practice as "acceleration" in this report.

Borrowers have also noted that, during their co-signer's bankruptcy proceedings, they are no longer able to receive billing statements, pay for their loans online, or request additional information on their loans.

In many cases, consumers report that student loan servicers are reporting these defaults to credit bureaus, negatively impacting the credit profile of a borrower who was otherwise paying on time, potentially making it more challenging to pass employment verification checks and access other forms of credit.

5. Ombudsman's Discussion

Based on the issues and themes described in Part Four, below is additional discussion relevant to student loan industry participants. This discussion represents the ombudsman's independent judgment and does not necessarily represent the view of the Consumer Financial Protection Bureau.

The frequent use of co-signing in the private student loan market is a noteworthy feature. While many borrowers believe the primary responsibility for repaying a student loan lies with the student after graduation, co-signers are also fully obligated to adhere to the terms of the loan.[5]

Since the financial crisis, investors are generally less willing to purchase securities backed by private student loans with lax underwriting standards, and lenders are increasingly requiring a co-signer as a condition for originating loans.[6] For a parent or grandparent, co-signing a private student loan is one method to facilitate access to credit or to obtain a lower interest rate for a family member's education, without an immediate cash flow impact.

It is true that creditors include clauses in the terms and conditions of private student loan contracts that permit the acceleration – and even the default – of outstanding balances upon the death or bankruptcy filing of a co-signer.

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[5] It is worth noting that financial measures of private student loan performance will tend to understate – perhaps dramatically – the level of distress among primary borrowers. Indeed, a number of complaints we receive are from those struggling to obtain loan modifications because they want to find an affordable repayment plan that does not require their co-signer to offer financial support.

[6] Consumer Financial Protection Bureau and Department of Education, *Private Student Loans*, available at http://files.consumerfinance.gov/f/201207_cfpb_Reports_Private-Student-Loans.pdf (August 2012).

Inclusion of these clauses may be rational for a creditor. However, the practice of accelerating a loan and immediately demanding the full balance upon the death or bankruptcy of a co-signer on a loan that is otherwise performing warrants review by investors and senior management.[7]

Some industry participants rely on third parties who conduct scans of public records of death and bankruptcy filings, which are then electronically matched to customer records and trigger a default, regardless of individual circumstances. Financial institutions face several risks with this approach.

Reduction of interest income: For a loan where the primary borrower has been making on-time payments for a lengthy period of time, placing the loan in default and demanding the full balance will almost certainly reduce the interest income over the life of the loan.

Reduced recovery of principal: Borrowers that have been making on-time payments for a lengthy period of time may not be able to cover the full amount of the loan immediately after a co-signer's death or bankruptcy. To the extent that this results in the failure of the servicer or lender to recover the full amount of the loan, or results in higher collection costs per dollar recovered than would have been incurred using the normal payment schedule, automatic defaults may lead to lower recoveries of principal balances.

Poor customer experience: For a borrower who has proven to be a responsible paying customer and is facing the death of a parent or grandparent co-signer, debt collection calls demanding the full balance with limited explanation will probably not be welcomed. This might substantially reduce the willingness of the borrower to pursue other credit products with the financial institution.

Reputation: The deployment of debt collection protocols on an otherwise-performing loan in a time of a family tragedy may give the impression that a private student lender or servicer is inadequately managed or simply unwilling to work constructively with borrowers.

While these acceleration options may have a legitimate business purpose, it seems that private student lenders and servicers may not always be acting in their own self-interest by accelerating

[7] It is worth noting that the federal Direct PLUS Loans may require an "endorser" in certain circumstances. However, the death or bankruptcy filing of an endorser does not constitute an event of default or a cause for accelerating the full balance of the loan under the federal Direct PLUS loan terms and conditions.

balances and placing loans in default. Since lenders and servicers typically have the option to place the loan in default, there are several alternatives worthy of further evaluation that may not only benefit consumers but also lenders and servicers.

- A private student loan servicer can seek to determine whether the borrower qualifies for co-signer release and maintaining the existing payment schedule would be beneficial for all parties.
- The lender or servicer could provide an opportunity for the borrower to obtain another creditworthy co-signer. In many cases, the widowed parent or other relative may be a suitable substitute.
- The lender could notify the borrower the existing payment schedule will be honored for a designated period of time before the entire balance is demanded. This would allow the borrower to apply for a new loan (perhaps with a new co-signer such as the widowed parent) or to seek a refinance option with a different lender with new terms.

Reasonable observers might ask why these options are not more commonly employed. We do not know the extent to which lenders and servicers regularly use any of these alternative practices, but acceleration seems to be used by the bulk of industry participants. In addition, pooling and servicing agreements governing the actions of servicers for loans held in securitized trusts may provide additional complexity in these situations.

Finally, opaque policies related to borrower benefits, such as co-signer release, reinforce the need for management to be closely reviewing complaints received by the CFPB. Private student loan servicers should assess whether they are providing clear and accurate information about co-signer release and other benefits.

Private student loan servicers generally do not publish specific information on these co-signer matters. We welcome additional information from industry participants who wish to clarify their policies and procedures regarding the handling of performing loans upon the death or bankruptcy filing of a co-signer, as well as more specific information on the rate at which borrowers are seeking and successfully obtaining co-signer releases.[8]

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[8] Contact information to supply input can be found at the end of this report. This is not a confidential supervisory information request and any response is voluntary. If industry participants choose to respond, they should not

We will continue to monitor these co-signer issues carefully and hope to identify opportunities that yield benefits for both industry and consumers.

provide any personally identifiable information of any borrower or other information. Information provided in response to this request will support the Bureau's ongoing consumer education and market analysis function. We may make public the information we gather in response to this request, but we will not identify any particular company, and information provided may be subject to other public disclosure to the extent required by law.

6. Contact Information

TO REACH THE CFPB'S STUDENT LOAN OMBUDSMAN:

Email: students@cfpb.gov

Mailing Address:

Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC 20552

TO SUBMIT A COMPLAINT:

Webpage: consumerfinance.gov/complaint
Toll-Free: (855) 411-CFPB (2372)
Español : (855) 411-CFPB (2372)
TTY/TDD: (855) 729-CFPB (2372)
Fax: (855) 237-2392
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PRESS & MEDIA REQUESTS

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