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REPORT: PRIVATE STUDENT LOAN BORROWERS FACE ROADBLOCKS TO REPAYMENT

Complaints of Surprises, Runarounds, and Dead-Ends Similar to Problems Found in Mortgage Servicing

The Consumer Financial Protection Bureau (CFPB) Student Loan Ombudsman released a report today on private student loan complaints that describes how some borrowers may be struggling to pay back their debt because of difficulties with their loan servicers. The report finds some similarities with complaints heard about the mortgage servicing business. The issues detailed in the report, "The CFPB Student Loan Ombudsman's Annual Report," are based on input received from borrowers through complaints, comments, and other submissions. Many former students say they are sometimes surprised by the terms and conditions of their loans, some are given the runaround by their loan servicer, and others have few options for refinancing a better deal.

BACKGROUND

- Outstanding student loan debt is now more than $1 trillion. Student loans have surpassed credit cards as the largest source of outstanding consumer debt, outside of mortgages. Forty percent of American households headed by someone under 35 have student loan debt, according to the Survey of Consumer Finance. Private student loans account for more than $150 billion of the outstanding debt and more than 850,000 of these loans are in default, with even more in delinquency.

- Most private student loans do not have the same borrower protections of federal loans, such as income-based repayment plans, discharges upon death, or military deferments. Like mortgage borrowers, private student loan borrowers make their payments and inquiries to loan servicers, which are often different than the lender itself. And, like mortgages, the servicer's customer is generally the lender. They may not have the incentive to provide a high level of customer service to the borrower.

- Since March 2012, the CFPB has received approximately 2,900 complaints on private student loans. With 95 percent of the complaints about servicing, today's report notes a strong resemblance to mortgage servicing. A breakdown of the complaints:
  - **65 percent** relate to servicing, including complaints about fees, billing, deferment, forbearance, fraud, and credit reporting.
  - **30 percent** are about problems consumers face when they are unable to pay, including complaints about default, debt collection, and bankruptcy practices.
  - **5 percent** concern getting a loan, including problems with origination, marketing, and borrower confusion about loan terms and conditions.

SURPRISES

Some private student loan borrowers told the CFPB that after they leave school, they have a hard time figuring out how much they owe. Borrowers report they often do not receive the information they need about their loans, and may be caught off guard by unexpected terms and costs. Even those who receive disclosures may not remember what they were told three or four years before repayment begins. Unable to anticipate and avoid these surprises, some borrowers end up in trouble.

- **Unknown or misunderstood terms and conditions:** Borrowers complain of not being fully informed of the conditions of their loans. Some say they were never advised of the difference between a federal and private student loan. This issue has come up for borrowers at both the origination and repayment stages of their loans.

- **Accounts changing hands:** Some student loan borrowers find that their loans have been sold or their servicer has changed. Borrowers report that sometimes servicers cannot even answer who owns a loan.
- **Unauthorized payments:** Some borrowers have deposit accounts with the same financial institution that handles their private student loan. Borrowers report that in some circumstances, if the borrower has not paid his or her student loan on time, the lender might automatically deduct funds from the borrower's checking account, sometimes also charging an overdraft fee if the account is overdrawn.
- **Unexpected forbearance fees:** Borrowers state that some lenders and servicers charge a fee for forbearance even though borrowers requesting forbearance typically cannot afford to make their payments – being charged additional fees is not the help they are seeking. Correspondingly, a monthly charge of forbearance fees forces borrowers to come up with money as they attempt to demonstrate that they are experiencing financial hardship.

RUNAROUNDS

Private student loan borrowers complained of running into hurdles in trying to pay back their loans. Often the problems reported are simple and basic. And they complained that servicing personnel may not be adequately trained to provide assistance or may be unaware of resources available to borrowers. Like mortgage servicing, when these problems arise, private student loan borrowers can end up in trouble because of servicer error or misinformation.

- **Payments credited late or unevenly:** According to borrowers, some servicers may take several days to process payments and borrowers end up paying interest on the outstanding principal during that processing time. Payments may also be applied to an account well after the funds are debited from a borrower's bank account. And some servicers may take two to four days to process payments submitted online, when other financial services companies are able to credit such payments almost instantly.
- **Faulty record-keeping:** Borrowers report that paperwork may get lost and errors aren't always fixed quickly. And some borrowers complain about limited access to their account information, including their payment history. Other borrowers report having difficulty understanding how their payments have been applied to interest and principal.
- **Inadequate assistance from servicing staff:** Borrowers report getting transferred to multiple departments, none of which may be responsive or empowered to provide a clear answer. Borrowers also complain about being unable to reach appropriate service staff members to correct a mistake in how a payment was applied to their account. Other borrowers complain about conflicting instructions from different employees of the same servicer.

DEAD-ENDS

Private student loans have few repayment options. And when they do, they typically offer very limited deferrals and forbearance, and no interest rate changes. Even for borrowers not in distress, being locked in can be costly because as borrowers build a credit profile, graduate, and earn income, they may be unable to refinance existing student debt to a lower rate.

- **Few modification and refinance options:** By far, the most common concern communicated by borrowers is the difficulty they have negotiating a repayment plan with their servicer in periods of unemployment, underemployment, or financial hardship. Many borrowers report frustration that they are able to manage their payments on their federal student loans through programs like Income-Based Repayment, but are unable to identify appropriate personnel who can make a determination about a more "workable" repayment plan until they can get back on their feet. It may be hard simply to get the straight answer that the lender has no such program.

- **“Good faith” partial payments still lead to default:** Some borrowers expressed frustration that servicer personnel encouraged them to pay what they could afford without informing them that they would still be on a path toward default.
- **Difficulty taking advantage of promised incentives:** It is common for lenders to offer various incentives to borrowers in marketing materials prior to origination. These might include interest rate or principal reductions for engaging in activities that increase the likelihood of repayment, such as graduation or enrollment in an auto-debit program. But some borrowers complain that servicers put hurdles between them and these incentives, making it hard for consumers to take advantage of them.
- **Barriers to co-signer release:** Some private student loan originators describe that co-signers can be released from responsibility after a period of consecutive on-time payments. However, this release is not automatic. Some borrowers describe that it is difficult to activate this option.