

July 2013

Mid-year snapshot of private student loan complaints

Executive summary

- Earlier this year, the CFPB projected that outstanding student debt is approaching \$1.2 trillion, including approximately \$165 billion in outstanding private student loan debt.
- While private student loans have a small share of the total outstanding student debt, they are an important part of the market given their disproportionate use by high-debt borrowers. For borrowers graduating around the time of the financial crisis with over \$40,000 in student debt, 81% used private loans.
- The CFPB published the first Annual Report of the CFPB Student Loan Ombudsman in October 2012 as well as a report focused on specific problems experienced by servicemembers with student loans. Generally, complaints received since October 2012 cover a similar set of concerns outlined in our earlier publications.
- This report analyzes and discusses complaints submitted by consumers from October 1, 2012, through March 31, 2013. During this period the Bureau received approximately 2,000 complaints from consumers seeking assistance in navigating or repaying their private student loans.
- This report seeks to highlight issues that may be cause for particular concern, either because they represent a growing share of private student loan complaints or because they describe practices that may be particularly problematic for consumers.
- Nearly three-quarters of all student loan complaints submitted during this period were directed at just eight companies. This is not surprising, given that the private student lending and servicing markets are highly concentrated.
- The largest subset of consumers continue to complain that they are unable to modify the repayment terms of their loan, either in order to lower monthly payments during periods of financial hardship or to reflect the borrower's improved credit profile and creditworthiness.
- Additionally, consumers raised concerns about a range of other servicing problems, including payment processing problems, challenges obtaining necessary documentation about their private student loan, difficulty obtaining accurate information about their loan status and repayment options, and obstacles accessing basic account information.
- While some lenders and servicers have addressed servicing problems facing military families since the publication of our previous report, not all have done so. The CFPB continues to receive complaints from servicemembers having trouble accessing benefits under the Servicemembers Civil Relief Act (SCRA).

About this report

July 2013

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 consumer complaints regarding private student loans and make appropriate recommendations to the Secretary of the Treasury, the Director of the Consumer Financial Protection Bureau, the Secretary of Education, and Congress.

In its first year of operation, the CFPB entered into a memorandum of understanding with the Department of Education to coordinate on student loan complaints. The CFPB began accepting consumer complaints about private student loans in March 2012.

The CFPB published the first Annual Report of the CFPB Student Loan Ombudsman in October 2012. Additionally, data about private student loan complaints were added to the CFPB's public Consumer Complaint Database in March 2013.

This report does not attempt to present a statistically significant picture of issues faced by consumers. It is, by design, not a random sample and not intended to communicate the frequency to which certain practices exist. While the market information we receive from consumers, schools, and industry yields a broad range of input, readers should recognize the inherent limitations of the underlying data.

Rohit Chopra

Assistant Director and Student Loan Ombudsman

Consumer Financial Protection Bureau

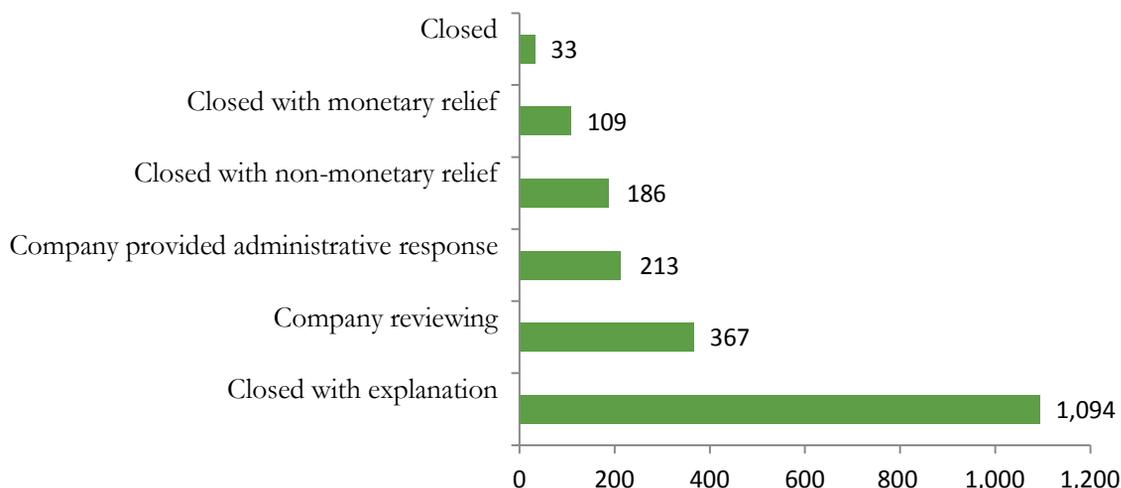
Private student loan complaint data

1. Complaints by month 2012-2013



The volume of private student loan complaints has remained relatively steady over the reporting period.

2. Company responses from October 2012 – March 2013



3. Private student loan complaint summary statistics

Complaints Received from October 2012 – March 2013	2,002
Median age of consumer submitting complaint (of those with disclosed age)	33
Median amount of relief (as reported by company)	\$700.05
Highest amount of relief (as reported by company)	\$76,140.05

4. Top consumer reported issues from October 2012 - March 2013

Private Student Loans	Percentage	No. of Complaints
Getting a loan	4 %	87
Problems when you are unable to pay	34 %	673
Repaying your loan	62 %	1,242

We are pleased that some market participants have improved training and operations to ensure that active-duty servicemembers can invoke their rights under the Servicemembers Civil Relief Act, which was highlighted in a report published by the CFPB in October 2012. However, it appears that some consumers continue to confront obstacles when seeking a rate cap under the law. The CFPB will continue to coordinate with the Department of Justice regarding these potential violations.

In general, the largest subset of consumers continue to complain that they are unable to modify the repayment terms of their loan, either in order to lower monthly payments during periods of financial hardship or to reflect the borrower's improved credit profile and creditworthiness. Additionally, during this reporting period, private student loan borrowers raised concerns about a range of other servicing problems. Private student loan borrowers submitted complaints about payment processing problems and about challenges obtaining necessary documentation about their private student loan. Borrowers and co-signers describe difficulty obtaining accurate information about their loan status and repayment options and have submitted complaints describing the obstacles they face accessing basic account information. Below we describe some of these issues in further detail.

Payment processing. Many consumers report issues relating to payment processing, particularly when one payment is sent to cover several loans associated with the same servicer. When a borrower submits a payment, companies generally first apply these funds to satisfy any outstanding fees, interest and principal, and then allocate any remaining overpayment to outstanding principal across all loans, on a pro rata basis. Depending on the size of the overpayment, companies may also advance the due date for future payments. The manner in which companies communicate this process with their customers has caused significant borrower confusion.

Consumers seeking to allocate overpayments to the principal of a particular loan, to reduce the repayment period for that the loan, regularly submit complaints. They report having difficulty trying to communicate to the company to process the overpayment in the manner preferred by the consumer. Because many consumers often manage multiple loans with multiple rates with multiple servicers, paying off loans more quickly generally requires overpayments to be devoted to rates with the highest interest rate.

Consumers express frustration that some payment processing policies are not fully explained to consumers until after they remit payment. In addition, many online servicing platforms do not provide a simple way to allow the consumer to clearly allocate how payments made in excess of the required minimum are applied to individual loans.

There is also concern over the treatment of underpayments. Some borrowers complain that in the event that a payment is less than the full amount owed, the servicer will distribute the payment among all the loans on a pro rata basis, creating a deficit in all loan accounts and resulting in late fees for all accounts. Consumers suggest that if the lender had processed the payment by allocating the payment to satisfy as many loan accounts as possible in full, the consumer would be charged fewer late fees. There may also be additional negative consequences for borrowers' credit profiles when companies apply underpayments in this manner.

Conflicting information provided by lender or servicer. Many borrowers submitted complaints concerning the receipt of incomplete, inaccurate, or inconsistent information from the servicer or loan originator. Borrowers reported that it was difficult to navigate their private student loans because the company continually changed advice or retracted previous statements communicated to the borrower.

For example, we heard from one consumer who applied for forbearance and was told by her servicer that she was approved for the forbearance and no payments were due. The next billing cycle, the consumer learned that she incurred late fees because her forbearance application was not processed, since unbeknownst to her, her payment of the forbearance fee did not get processed. Inconsistent or incomplete information from the lender or servicer may lead consumers to default on the loan or to be charged late fees for missed payments.

Borrower does not receive notices or written communication from lender or servicer. Many borrowers complained that they are experiencing difficulty obtaining a copy of the contract or promissory note controlling their private student loans. Other consumers noted that they do not consistently receive disclosures, notice of interest rate changes, billing statements, or other written communication from the company. These borrowers express frustration when attempting to obtain this information because some companies do not retain copies of routine consumer communication in their records.

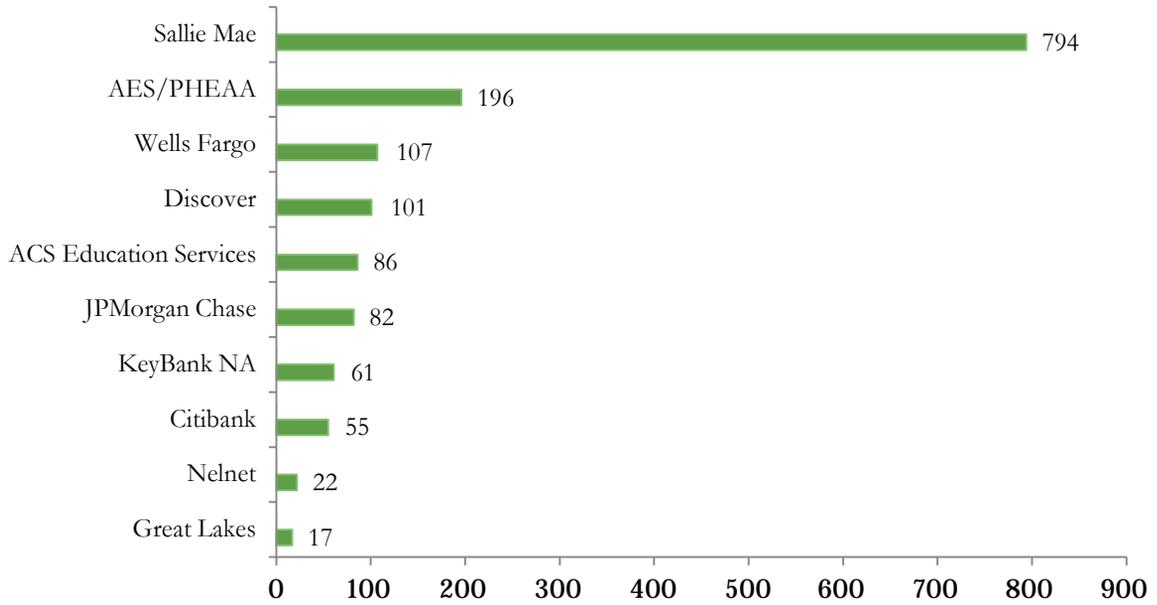
Co-signer issues. Many consumers submitted complaints about private student loans for which they were the co-signer of the loan. Co-signers reported that they have difficulty accessing information about the student loan and are not allowed to create an online account to view the status of the loan.

Co-signers also reported payment processing problems and frustration when they are unable to remit payments to be applied only to the loan for which they co-signed. Many co-signers stated that payments sent to the servicer are often posted across all loans held by the primary borrower and not specifically toward the co-signed loan. Co-signers request clear information on how to make payments toward the co-signed loans to avoid deficient loan accounts and negative consequences for their credit.

Some private student lenders advertise that a co-signer may be released after a certain number of on-time payments toward the loan. However, many consumers complained that it is difficult to obtain information on co-signer release procedures or to qualify for co-signer release due to rigid and complicated standards. Additionally, consumers are often given conflicting information about the terms for co-signer release.

One consumer reported that at the time he took out the loan, 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 this time the consumer requested to release his co-signer only to find out that the policy had changed and now required 48 on-time payments before applying to release the co-signer.

5. Private student loan complaints by company from October 2012 - March 2013



6. Company responses disputed by consumers from October 2012 - March 2013

Month	Response Disputed	Not Disputed	Not Yet Disputed (complaint in progress)
October 2012	15%	53%	32%
November 2012	15%	55%	29%
December 2012	12%	58%	30%
January 2012	13%	60%	27%
February 2013	12%	58%	31%
March 2013	15%	37%	48%

Contact

TO REACH THE CFPB'S OFFICE FOR STUDENTS:

Email: students@cfpb.gov

Mailing Address:

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

TO FILE A COMPLAINT:

Webpage: <http://www.consumerfinance.gov/complaint>

Toll-Free: (855) 411-CFPB (2372)

Español : (855) 411-CFPB (2372)

TTY/TDD: (855) 729-CFPB (2372)

Fax: (855) 237-2392

Mailing Address:

Consumer Financial Protection Bureau
PO Box 4503
Iowa City, Iowa 52244



PRESS & MEDIA REQUESTS:

Email: press@consumerfinance.gov

Appendix: Consumer complaint process



1. Complaint submitted

You submit a complaint about an issue you have with a company about a consumer financial product or service. You will receive email updates and can log in to track the status of your complaint.



2. Review and route

We'll forward your complaint to the company and work to get a response from them. If we find that another government agency would be better able to assist, we will forward your complaint to them and let you know.



3. Company response

The company will review your complaint, communicate with you as needed, and report back about the steps taken or that will be taken on the issue you identify in your complaint.



4. Consumer review

We will let you know when the company responds. You can review that response and give us feedback.



5. Review and investigation

Complaint data is shared with state and federal law enforcement agencies. Complaints tell us about business practices that may pose risks to consumers. If we need more information, we'll reach out and let you know.



6. Analyze and report

Complaints help with our work to supervise companies, enforce federal consumer financial laws, and write better rules and regulations. We also report to Congress about the complaints we receive and post some consumer complaint data.