



Consumer Financial
Protection Bureau

1700 G Street, N.W., Washington, DC 20552

November 26, 2013



Dear [REDACTED]:

I am writing to offer you the opportunity to share information on the options available to your customers who are seeking to make extra payments on their private student loans.

Last month, the Consumer Financial Protection Bureau published customizable, sample text that borrowers can electronically submit to a servicer indicating that they wish to allocate payments in excess of the amount due to their highest-rate loan in order to reduce their total interest paid. We received input from an industry association indicating that this sample text is unhelpful, and if a borrower wants to make a prepayment toward a specific loan, the borrower will need to send the prepayments with an accompanying letter each and every time. However, a number of industry participants have cautioned the Bureau that this input may not accurately portray the views of their institutions and is not consistent with their customer service approach.

We understand that many servicers welcome the opportunity to electronically respond to borrowers acknowledging the borrower's request – even when a servicer will not honor standing instructions – and responding with the various ways that borrowers can direct a prepayment to a specific loan. This not only helps servicers reduce operating costs by reducing call center volume and costly processing of paperwork, but it also supports their efforts to ensure compliance with the Truth-in-Lending Act's ban on prepayment penalties for private student loans.

As many in the industry have noted, the Bureau and industry participants share the goal of helping to educate borrowers on ways to repay their student loans. Any input you can provide on the questions below will help us as we respond to consumer inquiries and develop additional consumer education materials.

- (1) Many active-duty servicemembers qualify for loan repayment assistance programs through the U.S. Department of Defense. These repayment programs often electronically transfer large, lump-sum payments directly to a loan servicer on behalf of borrowers. Payments are frequently in excess of a borrower's minimum monthly payment.

When the Department of Defense or another third party remits a large, lump-sum electronic payment, how is this payment allocated when a borrower has multiple loans? For servicemembers and others seeking to direct large, lump-sum prepayments to a specific loan made by a third party, what is the best way for them to provide instructions to you?

- (2) Many borrowers utilize online bill pay systems, often through their checking account provider, to repay their private student loans. Often, these bill pay systems make electronic "batch" payments, in lieu of individual paper checks, remitted on behalf of many borrowers.

Roughly what percent of payments (by number and by dollar amount) are made through online bill pay systems? When borrowers initiate an electronic payment and make a notation in the "notes" or "memo" field to allocate funds in a specific manner, are you able to honor these instructions? If not, what is the best method for borrowers to provide instructions when making payments through online bill pay systems?

- (3) Lenders and servicers frequently encourage the use of direct debit initiated through an online servicing platform, given the speed and cost efficiency.

Roughly what percent of payments (by number and by dollar amount) are made through a direct debit initiated through your platform? When a borrower initiates a direct debit in excess of the total amount due for that month, how should a borrower provide instructions through the online servicing platform on how to allocate funds toward a particular loan?

- (4) Are you currently able to accommodate borrowers who provide standing instructions on directing future payments in excess of the amount due toward a specific loan? How do you respond to borrowers who provide standing instructions?
- (5) How do you communicate policies to borrowers on directing prepayments toward a specific loan? Do you send targeted communications to borrowers who routinely send prepayments without additional information on how they can provide instructions?

This is not a confidential supervisory information request and your response is entirely voluntary. Information provided in response to this request will support the Bureau's ongoing consumer education and market analysis functions. We may make public the information we gather in response to this request, but we will not identify any particular servicer, and information provided may be subject to other public disclosure to the extent required by law. Thank you for considering this request and responding by December 17, 2013. We look forward to our continued shared efforts to educate borrowers on how to successfully manage their student debt.

Sincerely,



Rohit Chopra
Assistant Director & Student Loan Ombudsman
Consumer Financial Protection Bureau

*Thanks for
your help with
this!*