June 2017

Staying on track while giving back

The cost of student loan servicing breakdowns for people serving their communities

Consumer Financial Protection Bureau

Message from the CFPB Student Loan Ombudsman

In September 2013, the Consumer Financial Protection Bureau (the Bureau) released "Public Service and Student Debt," a report that examined how a range of existing protections and benefits offered the promise of debt relief to an important segment of student loan borrowers—those who pursue careers serving in their communities.[1] At the time, the Bureau estimated that 1-in-4 U.S. workers were employed by a "public service organization," as defined by the federal Public Service Loan Forgiveness (PSLF) program.[2] Evidence suggests that many professions in this segment of the workforce typically require advanced levels of education,[3] and that education requirements in many of these fields have increased over time. These requirements are put in place through federal or state law,[4] often as recommended by individual public service organizations or by professional associations.[5]

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1 *See* Consumer Financial Protection Bureau (CFPB), *Public Service & Student Debt* (2013), http://files.consumerfinance.gov/f/201308_cfpb_public-service-and-student-debt.pdf. Additionally, that same year, the Bureau launched a workplace financial fitness initiative to empower public service employers to help their employees reduce their student debt – the CFPB Public Service Pledge on Student Debt. *See* CFPB, *Take the pledge* (accessed Feb. 3, 2017), http://www.consumerfinance.gov/pledge/. For more than three years, the Bureau has provided organizations that take the Public Service Pledge with resources and toolkits to help employees stay on track as they manage their student loan debt.

2 *See* 34 C.F.R. § 685.219 (defining public service as work in the following fields: federal, state, local, or tribal government; public child or family service agency; non-profit organization under 501(c)(3) of the Internal Revenue Code; tribal college or university; or a non-profit private organization that provides certain public services, including emergency management, military service, public safety, law enforcement, public interest law services, early childhood education, public service for individuals with disabilities, public health, public education, public library services, school library or other school-based services.); *see also* CFPB, *Public Service & Student Debt*, *supra* note 1.

3 *See, e.g.*, Keith A. Bender & John S. Heywood, *Out of Balance? Comparing Public and Private Sector Compensation over 20 Years*, National Institute on Retirement Security (Apr. 2010), slge.org/wp-content/uploads/2011/12/Out-of-Balance_FINAL-REPORT_10-183.pdf ("Public and private workforces differ in important ways. For instance, jobs in the public sector require much more education on average than those in the private sector.").

4 *See, e.g.*, 10 U.S.C. § 12205(a) (requiring a bachelor's degree for promotion beyond a first lieutenant for certain branches of the military); 8 Va. Admin. Code § 20-22-40 (2017) (requiring prospective teachers to hold a bachelor's degree before applying for a teaching license in Virginia); *see also* U.S. Army Officer Program, *Officer: Frequently*

Communities across the country have continued to prioritize higher education for public service professions by establishing new credential or degree requirements for a broad range of public service workers, including classroom teachers,[6] first responders,[7] clinical social workers,[8] and early childhood education providers.[9] In each instance, the public broadly shares the benefits of a highly educated professional workforce serving in their communities. Yet, too often, the financial costs of these new credentials fall on individuals in careers with limited opportunity for wage growth to offset these costs. New credentialing initiatives continue to be enacted for those entering public service professions amid growing concerns by researchers,[10] regulators,[11] and

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Asked Questions (accessed May 30, 2017), www.goarmy.com/careers-and-jobs/become-an-officer/army-officer-faqs.html#college (stating that individuals are required to have a bachelor's degree before being commissioned as an officer).

5 *See, e.g.*, Assoc. of State and Provincial Psychology Boards, *ASPPB Model Act for Licensure and Registration of Psychologists* (Oct. 2010), asppb.site-ym.com/resource/resmgr/guidelines/final_approved_mlra_november.pdf; Nat. Assoc. of Social Workers, *Social Work Credentials* (accessed May 30, 2017), naswdc.org/credentials/default.asp.

6 *See, e.g.*, 16 Ky. Admin. Regs. 2:101 (2017) (Requiring individuals hold a bachelor's degree with a minimum grade point average to be eligible for a teaching certificate).

7 *See, e.g.*, Cal. Code Regs. tit. 19, § 2530 (2017) (requiring state certified hazardous materials technicians to have at least a bachelor of science). The Bureau of Labor Statistics (BLS) notes that first responders with college degrees, including firefighters and police officers, have the best job prospects and opportunities for promotion. *See, e.g.*, BLS, *Firefighters: Job Outlook* (Dec. 17, 2015), bls.gov/ooh/protective-service/firefighters.htm#tab-6; BLS, *Police and Detectives: Job Outlook* (Dec. 17, 2015), bls.gov/ooh/protective-service/police-and-detectives.htm#tab-6.

8 *See, e.g.*, 172 Neb. Admin. Code 94 § 005 (2017) (Requiring certified social workers to "have a master's or doctorate degree in social work from an approved education program approved by the Council on Social Work Education (CSWE) showing receipt of either the master's or doctorate degree in social work.").

9 *See, e.g.*, Minn. R. 8710.3000 (2017) ("A candidate for licensure in early childhood education for teaching young children . . . shall . . . hold a baccalaureate degree from a college or university . . .).

10 *See, e.g.*, Robert Hiltonsmith, *At what cost? How student debt reduces lifetime wealth*, Demos (Aug. 2013), www.demos.org/what-cost-how-student-debt-reduces-lifetime-wealth; Mathieu R. Despard, et al., *Student Debt and Hardship: Evidence from a Large Sample of Low- and Moderate-Income Households*, Children and Youth Services Review, Vol. 70 Issue C; Fed. Res. Bank of Bos. *Student Loan Debt and Economic Outcomes* (2014), bostonfed.org/publications/current-policy-perspectives/2014/student-loan-debt-and-economic-outcomes.aspx.

11 *See* Conn. Dept. of Banking, *Public Comment on Request for Information on Student Loan Servicing* (Jul. 13, 2015), https://www.regulations.gov/document?D=CFPB-2015-0021-0381 ("Student loan servicing, a largely unregulated financial market and opaque industry, cries out for transparency and consumer-focused regulation. . .   estimates show alarmingly high and consistently rising default rates. Delinquencies are a harrowing bellwether: as the Bureau notes, the Department of Education estimates that 3 million borrowers are at least 30 days or more past due,

policymakers[12] about the potential spillover effects of mounting student indebtedness, particularly where student loan borrowers do not realize robust economic benefits from a higher education.

This raises serious questions about whether individual public service workers are caught between two economic cross currents – a growing need for higher education to pursue careers in this segment of the workforce, and the rising costs, and debt, associated with this education. These concerns may be even greater in fields where wage growth has been more limited over time, such as public education.[13] Furthermore, when these borrowers struggle to access critical protections designed to mitigate the burden of student debt, it raises significant concerns about the economic effects of this debt on a large segment of the workforce, including potential declines in homeownership,[14] retirement security,[15] asset formation,[16] and access to a strong

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comprising over $58 billion in balances. This is not deja vu. We *have* been here before."); Washington State, Office of the Attorney General, *AG Ferguson files suit against Sallie Mae offshoot Navient Corp., announces student loan bill of rights legislation* (Jan 18, 2017), atg.wa.gov/news/news-releases/ag-ferguson-files-suit-against-sallie-mae-offshoot-navient-corp-announces-student; *see also* CFPB, *Student Loan Affordability: Analysis of Public Input on Impact and Solutions* (May 8, 2013), files.consumerfinance.gov/f/201305_cfpb_rfi-report_student-loans.pdf.

[12] *See, e.g.*, Financial Stability Oversight Council, *2013 Annual Report* (2013), treasury.gov/initiatives/fsoc/studies-reports/Pages/2013-Annual-Report.aspx; U.S. Dept. of the Treasury, *Remarks by Deputy Secretary Sarah Bloom Raskin at the Rappaport Center for Law and Public Policy Conference on the Student Debt Crisis* (Mar. 18, 2016), www.treasury.gov/press-center/press-releases/Pages/jl0389.aspx.

[13] *See, e.g.*, Ed Hurley, *Teacher Pay 1940 – 2000: Losing Group, Losing Status* (Dec. 12, 2013), http://www.nea.org/home/14052.htm ("An analysis of decennial Census data clearly shows that over the past 60 years the annual pay teachers receive has fallen sharply in relation to the annual pay of other workers with college degrees. . . Throughout the nation the average earnings of workers with at least four years of college are now over 50 percent higher than the average earnings of a teacher. At no other time since a college degree was required to teach has this wage gap been so wide."). Furthermore, research shows that real wage growth for individuals aged 25-34 with bachelor's degrees has been stagnant over the last decade. Over the same period, the cost of healthcare, housing, and childcare has outpaced inflation. *See* U.S. Census Bureau, *Current Population Survey Annual Social and Economic Supplement* (2005 - 2015), https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-pinc/pinc-03.html#.html; Fed. Res. Bank of NY, *The Labor Market for Recent College Graduates* (Jan. 11, 2017), https://www.newyorkfed.org/research/college-labor-market/college-labor-market_wages.html; U.S. BLS, *Consumer Price Index* (2005 – 2015), https://www.bls.gov/cpi/cpi_dr.htm.

[14] *See, e.g.*, Alvaro Mezza et al., *On the Effect of Student Loans on Access to Home Ownership*, Fed. Res. Board (Nov. 2015), www.federalreserve.gov/econresdata/feds/2016/files/2016010pap.pdf (finding that an increase in student loan debt causes a drop in homeownership rates for student loan borrowers during the first five years out of school).

financial future.[17]

The current federal programs described in our 2013 report were designed to protect borrowers from the long-term economic consequences of the rising student indebtedness shouldered by many who pursue careers in public service. In effect, these protections were intended to ensure that nurses, teachers, first responders, and other public servants can serve their communities without it being to their long-term financial detriment, particularly as college costs continue to rise and advanced education requirements expand.

Unfortunately, too often this is not the case. As described in detail in the following report, many borrowers attempting to invoke their rights under federal law to these protections point to a range of student loan industry practices that delay, defer, or deny access to critical consumer protections. The Bureau is committed to monitoring the industry for key issues and illegal practices affecting borrowers who are trying to access key consumer protections so they can continue to give back to their communities.

Sincerely,

Seth Frotman
Assistant Director and Student Loan Ombudsman
Consumer Financial Protection Bureau

[15] *See, e.g.*, Alicia H. Munnell, et al., *Will the Explosion of Student Debt Widen the Retirement Security Gap?*, Ctr. for Retirement Res., B. C. (Feb. 2016), crr.bc.edu/briefs/will-the-explosion-of-student-debt-widen-the-retirement-security-gap/ (finding that an increase in student debt would raise the share of households at risk in retirement).

[16] *See, e.g.*, William Elliot & Melinda Lewis, *Student Loans are Widening the Wealth Gap: Time to Focus on Equity*, Univ. of Kan. (Nov. 7, 2013), aedi.ku.edu/sites/aedi.ku.edu/files/docs/publication/CD/reports/R1.pdf (finding that households with student loans have less assets and home equity than households without student loans).

[17] *See, e.g.*, Hiltonsmith, *supra* note 10; *see also* CFPB, *Prepared Remarks of Seth Frotman, Hearing Before the CA Senate Comm. on Banking and Financial Institutions* (Mar. 22, 2017), files.consumerfinance.gov/f/documents/201703_cfpb_Frotman-Testimony-CA-Senate-Banking-Committee.pdf.

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Executive summary

- This report analyzes complaints submitted by consumers from March 1, 2016 through February 28, 2017. During this period, the Bureau handled approximately 7,500 private student loan complaints, and also handled 2,200 debt collection complaints related to private and federal student loans. Prior to this period, the Bureau also began handling complaints about problems managing or repaying federal student loans, and handled approximately 11,500 federal student loan servicing complaints during this reporting period. All figures are current as of April 1, 2017.

- Over the past 12 months, the Bureau saw a 325 percent increase in student loan complaints, in which consumers identified a range of problems with payment processing, billing, customer service, borrower communications, and income-driven repayment (IDR) plan enrollment. These consumers submitted complaints about over 320 companies, including student loan servicers, debt collectors, private student lenders, and companies marketing student loan "debt relief." The Bureau's analysis of these complaints suggests that borrowers assigned to the largest student loan servicers report encountering widespread problems, whether these borrowers are trying to get ahead or struggling to keep up with their student debt. Over this period, borrowers with federal student loans continue to report substantial challenges with accessing basic information about repayment options, including income-driven repayment plans, particularly when these borrowers are experiencing financial distress.

- This report highlights complaints from student loan borrowers seeking existing federal protections for workers pursuing careers in public service, including those who pursue debt relief under the Public Service Loan Forgiveness (PSLF) program. For nearly four years, the Bureau has highlighted a range of student loan servicing practices that may inhibit borrowers seeking to exercise their rights under federal law to a range of different benefits and consumer protections, including programs designed to protect active duty servicemembers, veterans, teachers, nurses, first responders, and other student loan borrowers working in public service.

- Beginning in October 2017, the Department of Education will begin accepting applications from borrowers seeking loan forgiveness pursuant to PSLF. As this report details, borrowers have identified a range of student loan industry practices that delay, defer, or deny access to expected debt relief. Consequently, borrowers report that they are not on track to qualify for PSLF.

- The PSLF program was designed to encourage people to enter into public service careers, despite increasing levels of student loan debt. These careers, including teaching, social work, law enforcement, and public health, traditionally feature more modest wages, relative to many private sector fields that require comparable levels of advanced education. Nearly two-thirds of student loan borrowers engaged in public service who have certified interest in PSLF make less than $50,000 per year.

- To qualify for PSLF, borrowers must meet four requirements: the borrower (1) must have a qualifying loan, (2) must be enrolled in a qualifying repayment plan, and (3) while the borrower is working for a qualified public service employer, he or she must (4) make 120 on-time, qualified payments. Student loan servicers are responsible for administering each of these requirements. This report highlights how a range of servicing problems that are reported by student loan borrowers serving in their communities can impede borrowers' ability to obtain these key protections.

- This report also offers recommendations to policymakers and student loan industry participants as they work to ensure borrowers have full access to the range of protections guaranteed under federal law, including those offered through the PSLF program.

  - As policymakers reviewing this report note how servicing breakdowns can delay or derail progress towards PSLF, those seeking to assist these borrowers should consider whether additional flexibility is necessary to ensure that borrowers who received inaccurate information about program requirements provided by their student loan servicer will still be able to secure these benefits. This review process can be modeled after a previous effort by the Department of Education in 2010 to mitigate the harm caused to hundreds of borrowers who were advised by their servicer to enroll in an ineligible repayment plan.

- Servicers may wish to consider earlier engagement with borrowers about the availability and benefits of IDR. Borrowers who reach out to their servicer to express financial distress would benefit from having more information on IDR. Servicers can also engage borrowers to determine potential eligibility for PSLF and explain how enrollment in an income-driven plan is a first step towards loan forgiveness.

- Student loan borrowers who submit timely recertification applications for IDR plans should be granted the full extent of protections provided by federal law. Pursuant to these laws, if a servicer cannot process a timely recertification application before the expiration of the borrower's current IDR, the borrower should be entitled to continue making qualifying payments at their current payment level until the servicer can fully process the recertification application. These interim payments, like other IDR payments, should count towards loan forgiveness.

- Borrowers would be well served by uniform, clear, periodic, plain language reminders, including directly from servicing personnel, of the need to recertify income and family size to remain enrolled in an IDR plan. Reminder notices could clearly identify the date by which the borrower must submit the recertification application, and the consequences of failing to recertify.

1. About this report

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Act) established a Student Loan Ombudsman within the 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.

This report analyzes approximately 7,500 private student loan complaints, 11,500 federal student loan servicing complaints, and approximately 2,200 debt collection complaints related to private or federal student loan debt handled between March 1, 2016 and February 28, 2017. Figures are current as of April 1, 2017.

2. Midyear update on student loan complaints

Information about consumer complaints, including information about federal student loan, private student loan, and debt collection complaints, is available to the public through the CFPB's Consumer Complaint Database.[18]

The database contains anonymized complaint data provided by consumers, 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' personal information. The database includes web-based features such as the ability to filter data based on specific search criteria; and to aggregate data in various ways, such as by complaint type, company, location, date, or any combination of available variables. The database also provides the option to review consumer complaints narratives for consumers who have submitted complaints and consented to share their narratives so others can learn from their experience.

[18] *See* CFPB, *Consumer Complaint Database*, http://www.consumerfinance.gov/complaintdatabase/. The database lists complaints where the companies have had the opportunity to provide a response or after the companies have had the complaint for 15 calendar days –whichever comes first. The publication criteria are available at CFPB, *Disclosure of Consumer Complaint Data* (2012), http://files.consumerfinance.gov/f/201303_cfpb_Final-Policy-Statement-Disclosure-of-Consumer-Complaint-Data.pdf. We do not verify the facts alleged in these complaints, but we take steps to confirm a commercial relationship between the consumer and the company.

The following tables are based on complaints handled from March 1, 2016, through February 28, 2017, as exported from the public Consumer Complaint Database as of April 1, 2017.[19] These tables are not indexed for market share.[20]

2.1 Federal student loan complaint data

This section provides an analysis of a sample of 8,494 federal student loan complaints against companies. For each complaint, the Bureau assigned an "Issue Tag" identifying the root of the consumer's complaint based on the consumer's complaint narrative and the company's response.[21] This section reports the results of our review.

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[19] Not all complaints handled by the Bureau are published in the public Consumer Complaint Database. Therefore the number of complaints published in the database may be fewer than the total number of complaints handled by the Bureau. For example, complaints that do not meet the publication criteria, such as those where the entity complained about indicates that there is no customer relationship, may be removed from the database.

[20] Compared to other large markets of consumer financial products, such as residential mortgages and credit cards, availability of market data is quite limited for private student loans, which grew rapidly in the years leading up to the financial crisis. *See* CFPB and U.S. Dept. of Education, *Private Student Loans* (2012), http://www.consumerfinance.gov/reports/private-student-loans-report/. In early 2017, the Bureau announced a proposed information collection in accordance with the Paperwork Reduction Act, in which the Bureau seeks to collect market monitoring data on the largest federal and private student loan servicers. *See* CFPB, *Increasing transparency in the student loan servicing market* (Feb. 16, 2017), https://www.consumerfinance.gov/about-us/blog/increasing-transparency-student-loan-servicing-market/.

[21] The Bureau reviewed a sample of 8,494 federal student loan servicing complaints submitted between March 1, 2016 and February 28, 2017. Issue tags were assigned based on an independent review of each complaint by subject matter experts. Consumer narratives and company responses were analyzed to determine the root cause of the consumer's complaint. For example, if the consumer complained about derogatory credit reporting by the servicer because the servicer failed to accurately apply forbearance, the complaint would be tagged as "forbearance." Note that issue tags are distinct from consumer-selected issues provided in the public complaint database. *See* Appendix A for more information on issue tag definitions.

FIGURE 1: TOP TEN ISSUES IDENTIFIED IN FEDERAL STUDENT LOAN COMPLAINTS [22]

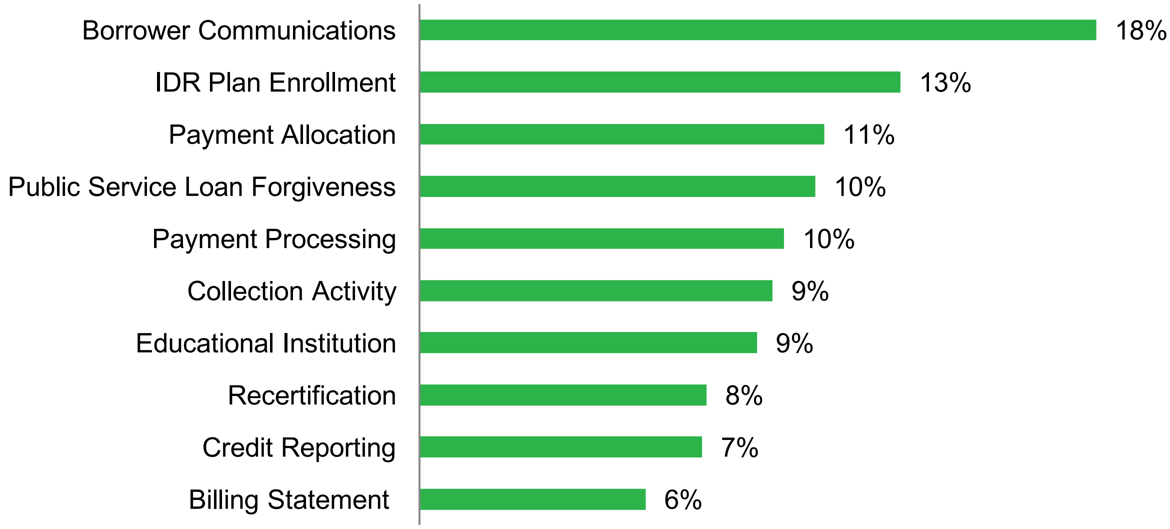


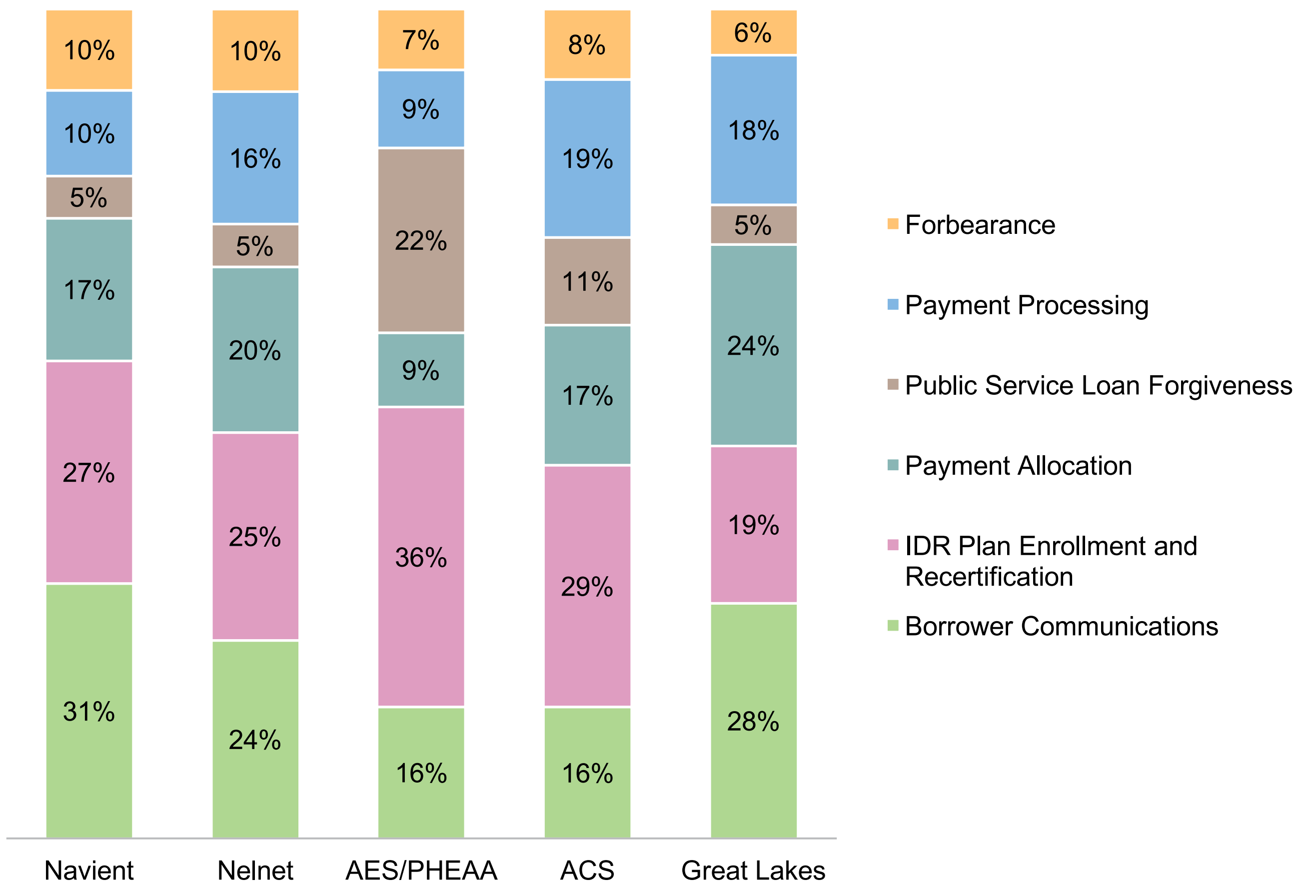
TABLE 1: COMPANIES WITH THE MOST FEDERAL STUDENT LOAN COMPLAINTS RANKED BY VOLUME [23]

Company	Mar. 2016 – Feb. 2017
Navient	4,638
AES/PHEAA	1,296
Nelnet	610
Great Lakes	345
ACS Education Services	226

[22] This chart reflects the top ten issues identified in federal student loan servicing complaint sample. Percentages are rounded and therefore may add up to more than 100 percent.

[23] This table reflects complaints where (1) the consumer identified the sub-product as "federal student loan servicing" and (2) the identified company responded to the complaint, confirming a relationship with the consumer. The Bureau also initiated an enforcement action against a large student loan servicer during the time period covered by this report.

FIGURE 2: PERCENTAGE OF COMPLAINTS AGAINST TOP FIVE COMPANIES BY SELECT ISSUE TAG[24]



[24] This chart shows the relative percentage of complaints received about selected issues for the top five companies by complaint volume. Issue tags featured in this chart were chosen based on consumer harms identified in the Bureau's 2015 *Student Loan Servicing* report. *See* CFPB, *Student Loan Servicing* (Sept. 2015), files.consumerfinance.gov/f/201509_cfpb_student-loan-servicing-report.pdf.

2.2 Private student loan complaint data

FIGURE 3: PRIVATE STUDENT LOAN ISSUES REPORTED BY CONSUMERS FROM MARCH 1, 2016 THROUGH FEBRUARY 28, 2017[25]

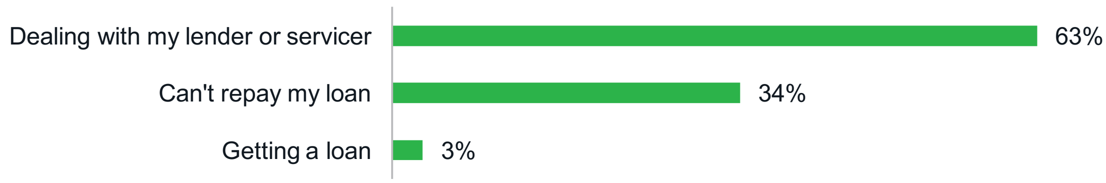


TABLE 2: COMPANIES WITH THE MOST PRIVATE STUDENT LOAN COMPLAINTS RANKED BY VOLUME[26]

Company	Mar. 2015 – Feb. 2016	Mar. 2016 – Feb. 2017
Navient	1,686	3,176
AES/PHEAA	465	464
Sallie Mae	261	339
Wells Fargo	274	279
Discover	153	184

[25] Consumers submitting student loan complaints can 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 figure reflects the categories consumers selected when submitting a complaint.

[26] This table reflects complaints where (1) the consumer identified the sub-product as a non-federal student loan and (2) the identified company responded to the complaint, confirming a relationship with the consumer.

2.3 Debt collection complaint data

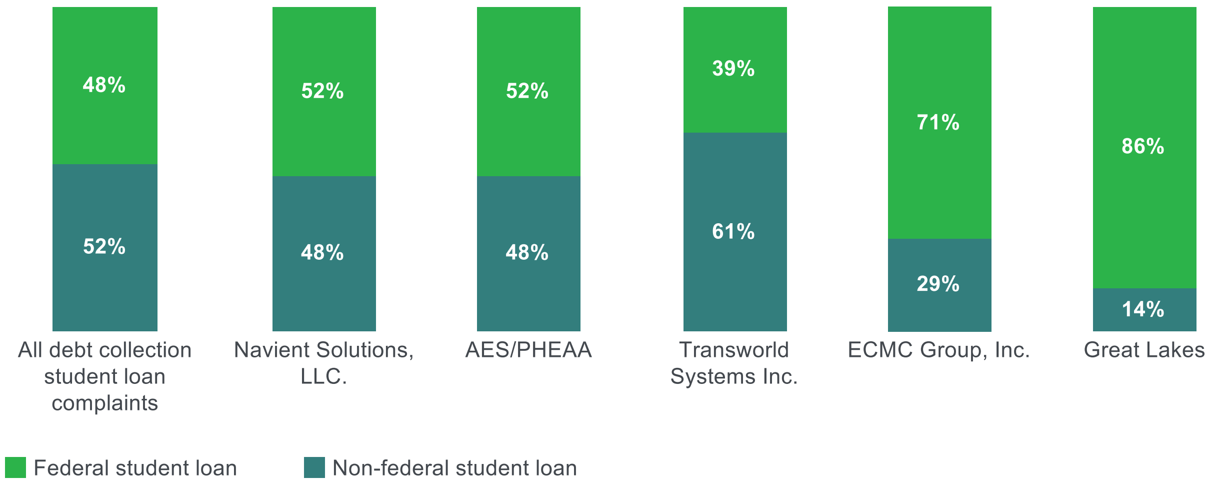
From March 1, 2016 through February 28, 2017, the CFPB handled approximately 2,200 debt collection complaints related to private or federal student loans.

TABLE 3: TOP RECIPIENTS OF STUDENT LOAN DEBT COLLECTION COMPLAINTS FROM MARCH 1, 2016 THROUGH FEBRUARY 28, 2017[27]

Federal Student Loans	Number of Complaints	Private Student Loans	Number of Complaints
Navient	166	Navient	153
AES/PHEAA	58	AES/PHEAA	53
ECMC Group, Inc.	40	Transworld Systems Inc.	35
Great Lakes	32	Sallie Mae	20
Account Control Technology, Inc.	22	Weltman, Weinberg, & Reis	20
Transworld Systems Inc.	22	National Enterprise Systems, Inc.	18

[27] This table reflects debt collection complaints where (1) the consumer identified the sub-product as a non-federal or a federal student loan and (2) the identified company responded to the complaint, confirming a relationship with the consumer. This table also reflects aggregated complaints of subsidiary debt collection companies that operate under their respective parent companies.

FIGURE 4: DISTRIBUTION OF LOAN TYPE FOR STUDENT LOAN DEBT COLLECTION COMPLAINTS BY COMPANY FROM MARCH 1, 2016 THROUGH FEBRUARY 28, 2017[28]



[28] This table reflects debt collection complaints where (1) the consumer identified the sub-product as a non-federal or a federal student loan and (2) the identified company responded to the complaint, confirming a relationship with the consumer. This table was not adjusted to reflect each company's relative market share. This table reflects the top companies by complaint volume. This table also reflects aggregated complaints of subsidiary debt collection companies under the parent company.

3. Issues faced by borrowers

Sources of information

To identify the range of issues faced by student loan borrowers, this report relies on complaints handled by the Bureau. We also 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 Bureau's website, and input from discussions with consumers, regulators, law enforcement agencies, and market participants.

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 may be a mismatch between borrower expectations and actual service delivered. Representatives from industry and borrower assistance organizations will likely find the inventory of borrower issues helpful in further understanding the diversity of customer experience in the market.

3.1 Overview of student loan complaints

Between March 1, 2016 and February 28, 2017, consumers with student loans identified a range of payment processing, billing, customer service, borrower communications, and income-driven repayment (IDR) plan enrollment problems. These consumers submitted complaints against more than 320 companies, including student loan servicers, debt collectors, private student lenders, and companies marketing student loan "debt relief."

As the figures in the preceding section illustrate, borrowers reported a broad range of servicing problems from each of the largest student loan servicers. The Bureau's analysis of these complaints suggests that borrowers assigned to the largest student loan servicers may report encountering widespread problems, whether they are trying to get ahead of or struggling to keep up with their student debt.

The Bureau continues to receive complaints from borrowers related to a range of servicing problems, including problems enrolling in and recertifying income under IDR plans, and problems related to payment processing and allocation for borrowers with multiple loans. Additionally, the Bureau continues to hear from struggling borrowers who are delinquent on their student loans and report that they are unable to get access to accurate and actionable information from their servicer to avoid default. As the remainder of this report highlights in detail, consumers also report a range of problems related to certain borrower protections, including the Public Service Loan Forgiveness program.

In addition to complaints about federal student loans, private student loan borrowers continued to submit complaints about co-signer issues, including a lack of information surrounding co-signer release requirements and co-signers' ability to allocate payments to only co-signed loans on borrowers' accounts. Additionally, borrowers continued to submit complaints regarding their inability to obtain flexible repayment options for their private student loans during times of financial distress. Complaints indicate that borrowers may be told there are flexible repayment options available, but when they seek to apply for such options, they are told that they are either ineligible or the repayment plan is unavailable.

3.2 Public service & student debt

A college degree has become a prerequisite to enter or advance in many public service careers.[29] However, research suggests that the prospect of several decades of student loan payments often deters people from pursuing careers in public service.[30]

For many student loan borrowers working in public service, the financial consequences of student debt can be substantial. Consider, for example, a preschool teacher at a public or non-profit preschool program during his first two years of employment. He earns $22,440 per year—in line with the typical starting salaries for early childhood educators—while carrying an average student debt balance for a borrower with a four-year degree.[31] Under a standard, 10-

[29] *See* BLS, *Should I get a master's degree?* (Sept. 2015), https://www.bls.gov/careeroutlook/2015/article/should-i-get-a-masters-degree.htm ("In some occupations, you're likely to need a master's degree to qualify for entry-level jobs. In others, a master's degree may not be required, but having one might lead to advancement or higher pay."); Bender & Heywood, *Out of Balance?*, *supra* note 3; *see also* Ala. Code 1975 § 34-30-22 (requiring social workers in Alabama to have at least a "baccalaureate degree from an accredited college or university including completion of a social work program."); 105 Ill. Comp. Stat. 5/21B-20 (2017) (requiring teachers in Illinois to hold at least a bachelor's degree); 21 N.C. Admin. Code 36.0803 (2017) (requiring nurse practitioners in North Carolina to hold at least a Master's degree).

[30] See, e.g., Nat'l Ass'n of Social Workers, In the Red: Social Works and Educational Debt (2008), workforce.socialworkers.org/whatsnew/swanddebt.pdf; Pew Charitable Trusts, Student Debt Means Many New Graduates Can't Afford to be Teachers or Social Workers (Apr. 5, 2006), Project on Student Debt, http://www.pewtrusts.org/en/about/news-room/press-releases/2006/04/05/student-debt-means-many-new-graduates-cant-afford-to-be-teachers-or-social-workers; The State PIRGs' Higher Education Project, Paying Back, Not Giving Back: Student debt's negative impact on public service career opportunities (Apr. 5, 2006), http://www.pirg.org/highered/payingback.pdf.

[31] Many states require a postsecondary degree for those seeking to work in early childhood education. *See* BLS, *Occupational Outlook Handbook: How to Become a Preschool Teacher* (accessed Feb. 21, 2017), https://www.bls.gov/ooh/education-training-and-library/preschool-teachers.htm - tab-4. For this example, we used the average student loan balance, $26,946, and interest rate, 3.9 percent, for graduates of four-year public institutions. *See* U.S. Dept. of Education, *Repayment Estimator* (accessed Feb. 13, 2017), https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action. We also assumed a recent graduate with an entry-level salary of $22,440. *See* U.S. News & World Report, *Preschool Teacher: Salary Details* (accessed Feb. 13, 2017), http://money.usnews.com/careers/best-jobs/preschool-teacher/salary. The Department of Education's Repayment Estimator assumes a five percent annual increase in salary when projecting repayment estimates.

year repayment plan, it would be nearly impossible for him to make his $272 payment each month, which would consume over 75 percent of his discretionary income.[32]

Fortunately, millions of teachers, nurses, first responders, servicemembers, and other public servants have access to a range of protections under federal law designed to ensure that student loan debt does not deter borrowers from entering or pursuing careers in public service occupations.[33] For example, the preschool teacher noted above could make payments limited to 10 percent of his discretionary income (less than $40 per month, if he is single and has no dependents), and after 10 years, earn loan forgiveness under the Public Service Loan Forgiveness (PSLF) program.[34]

This framework may be particularly important for workers in professions where credentials are required under federal or state law, as part of professional licensure requirements, or by employer prerequisites. These borrowers may have little control over education or credential requirements required of them, yet the financial costs of these credentials fall on the individuals – particularly those where limited opportunity for wage growth may limit borrowers' ability to offset these costs.

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[32] *See* U.S. Dept. of Education, *Repayment Estimator*, *supra* note 31.

[33] In 2007, Congress passed into law the College Cost Reduction and Access Act, which authorized the Public Service Loan Forgiveness program. The program is designed to encourage people to pursue careers in public service professions in spite of increasing levels of student loan debt. *See* Pub. L. 110-84 (2007); *see also* 34 C.F.R. § 685.219 (defining public service as work in the following fields: federal, state, local, or tribal government; public child or family service agency; non-profit organization under 501(c)(3) of the Internal Revenue Code; tribal college or university; or a non-profit private organization that provides certain public services, including emergency management, military service, public safety, law enforcement, public interest law services, early childhood education, public service for individuals with disabilities, public health, public education, public library services, school library or other school-based services).

[34] By the end of 2016, more than 32 million borrowers were repaying loans that are potentially eligible for PSLF. Of these borrowers, more than 500,000 people have certified their intent to pursue loan forgiveness under PSLF. *See* U.S. Dept. of Education, *Federal Student Aid Overview* (accessed on May 28, 2017), https://studentaid.ed.gov/sa/about/data-center/student/portfolio. Beginning in October 2017, the first student loan borrowers are expected to complete the requirements of the program and be eligible to apply for PSLF.

3.2.1 The Public Service Loan Forgiveness program

Student loan borrowers leaving school can choose between pursuing careers in the public or private sectors. Many choose careers in public service – seeking to give back to their country or community through teaching, nursing, military, or other service. Because many public service fields traditionally offer lower wages, individuals with average student loan debt and entry-level salaries in these fields are likely to face financial hardship when making their standard, 10-year payment amount, as illustrated in the example above. PSLF was created to protect public service workers against the prospect of this financial hardship and provide a pathway to satisfy their student loan obligation over a "standard" period of time (10 years).[35]

Recent data released by the Department of Education show that low-to-moderate income student loan borrowers comprise the largest share of borrowers expected to benefit from this program.[36] As of 2016, nearly two thirds (62 percent) of borrowers who have certified intent to pursue PSLF reported earning less than $ 50,000 per year.[37] The vast majority of borrowers (86 percent) earned less than $75,000 per year.[38]

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[35] Additionally, borrowers who obtain loan forgiveness under the PSLF program do not incur the tax consequences they would otherwise face if they received loan forgiveness after 20-25 years under an IDR plan without PSLF. For many borrowers, this could mean relief from thousands of dollars in tax liability. *See* I.R.C. § 108(f)(1); *see also* Internal Revenue Service (IRS), *Student Loan Cancellations and Repayment Assistance* (accessed Mar. 1, 2017), https://www.irs.gov/publications/p970/ch05.html. Borrowers who receive loan forgiveness after 20 to 25 years of payments under an IDR plan may be taxed on the discharged loan balance. *See* 34 C.F.R. §§ 685.215(g)(1)(iii), 685.209 (a)(6) (v)(A)(3), (b)(3)(iii)(D)(3), (c)(5)(vii)(A)(3); I.R.C. § 108(f)(1); *see also* IRS, *Student Loan Cancellations and Repayment Assistance* (accessed Mar. 1, 2017), https://www.irs.gov/publications/p970/ch05.html.

[36] *See* U.S. Dept. of Education, *Direct Loan Public Service Loan Forgiveness* (July 2016), http://fsaconferences.ed.gov/conferences/library/2016/NASFAA/2016NASFAADirectLoanPSLF.pdf.

[37] *See* U.S. Dept. of Education, *2016 FSA Training Conference for Financial Aid Professionals* (Nov. 2016), http://fsaconferences.ed.gov/conferences/library/2016/2016FSAConfSession18.ppt.

[38] *Id.*

Ensuring public service workers can repay student debt over the "standard" period of time (10 years).

The current federal framework for student loan repayment assumes that a typical student loan borrower will be able to make a series of level monthly payments over 10 years in order to satisfy his or her obligation in full.[39] All student loan borrowers who exit school and enter repayment are assigned a monthly payment amount on this payment schedule.[40] In 2007, Congress recognized that this standard payment schedule may present substantial financial hardship for certain borrowers working in public service and designed the Public Service Loan Forgiveness program to ensure public service workers could also satisfy their student debt over the "standard" period of time.[41]

The following examples illustrate this dynamic for two types of public service workers:

- **Public service careers with no private sector equivalent.** For many public sector careers, like teaching or military service, there are few, if any, private-sector equivalents. For example, the average clinical social worker with a master's degree owes $40,000 in student loan debt, but is likely to earn approximately $28,800 in her first years of social work.[42] Under a standard 10-year repayment plan, she will owe approximately $416 per month, consuming nearly half of her discretionary income.[43] In contrast, under an IDR

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[39] *See* 20 U.S.C. §§ 1078(a)(9)(A), 1087e(d).

[40] Borrowers also have the option of consolidating their federal student loans, which may extend the standard repayment period depending on the balance of the loan. However, when borrowers exit school, the default repayment plan is a standard, ten year term. *See* U.S. Dept. of Education, *Loan Consolidation* (accessed June 1, 2017), https://studentaid.ed.gov/sa/repay-loans/consolidation.

[41] *See* Pub. L. 110-84 (2007); *see also* 34 C.F.R. §§ 685.208(b)(1), 685.219(c)(iv)(C).

[42] All clinical social workers are required to have master's degrees to become licensed in their state. *See* BLS, *Social Workers* (Dec. 17, 2015), https://www.bls.gov/ooh/community-and-social-service/social-workers.htm. The Annual Survey of the Council of Social Work Education (CSWE) reports that 80 percent of all people who earn a Masters of Social Work (MSW) graduate with student loan debt. *See* CSWE, *Annual Statistics on Social Education in the United States* (2015), https://www.cswe.org/getattachment/992f629c-57cf-4a74-8201-1db7a6fa4667/2015-Statistics-on-Social-Work-Education.aspx.

[43] A student loan borrower earning $28,800 per year with $40,000 in student loan debt at a weighted average interest rate of 4.52 percent would pay $416 under a standard 10 year payment. Based on the same federal formula to determine "discretionary income" under the most widely available income-driven repayment plans, this

plan, the average social worker would pay $89 per month as she made payments that count towards PSLF.[44]

- **Public service careers that pay less than a comparable private sector position.** Alternatively, some individuals may pursue careers in which there are similar positions in both the private and public sectors. Depending on the career, a public sector position may offer lower wages than the private sector alternative.[45] Consider, for example, the especially large wage disparity between two borrowers with degrees from the same accounting program, owing the same amount of student loan debt. One may choose to work for state government as an entry-level auditor and earn approximately $33,000 per year, while the other may choose to work for a private accounting firm, where the national average is more than double that amount.[46] After graduation, both student loan borrowers would have the option of making the standard, 10-year payment

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consumer would need to devote approximately 46.6 percent of her discretionary income to her student loan payments. *See* U.S. Dept. of Education, *Repayment Estimator* (accessed June 1, 2017); CWSE, *Annual Statistics on Social Work Education in the United States* (2015), Table 15, https://www.cswe.org/getattachment/992f629c-57cf-4a74-8201-1db7a6fa4667/2015-Statistics-on-Social-Work-Education.aspx; U.S. Dept. of Education, *Interest Rates and Fees* (accessed June 1, 2017), https://studentaid.ed.gov/sa/types/loans/interest-rates#rates.

44 *See* U.S. Dept. of Education, *Repayment Estimator*, *supra* note 31.

45 *See*, *e.g.*, Bender & Heywood, *Out of Balance? supra* note 3 (finding that on average, public sector jobs require much more education than those in the private sector, and wages and salaries of state and local employees are lower than those for private sector workers with comparable earnings determinants); Federal Salary Council, *Memorandum on Level of Comparability Payments for January 2018 and Other Matters Pertaining to the Locality Pay Program* (Dec. 14, 2016), https://www.opm.gov/policy-data-oversight/pay-leave/pay-systems/general-schedule/federal-salary-council/recommendation16.pdf; *see also* Congressional Budget Office, *Comparing the Compensation of Federal and Private Sector Employees* (Jan. 2012). These public-sector positions may also offer more generous non-wage compensation than their private sector alternatives, but this form of compensation generally does not aid in the repayment of student loans.

46 *See* Tenn. Dept. of Human Resources, *Alpha Compensation Plan* (June 1, 2017), http://www.tn.gov/dohr/class_comp/pdf/alpha_comp_plan.pdf; BLS, *Accountants and Auditors* (accessed Mar. 10, 2017), https://www.bls.gov/ooh/business-and-financial/accountants-and-auditors.htm#tab-5.

> of $272; but, for the public sector accountant, that payment amount would consume three times the share of his disposable income versus the private sector accountant.[47]
>
> As this example illustrates, while otherwise similarly situated borrowers may graduate with the same level of student loan debt, those entering public service may be less able to afford their standard 10-year payment amount.[48] In contrast, under certain IDR plans, the accountant working for state government would have payments set at 10 percent of his discretionary income – $124 per month – comparable to the share of discretionary income a private sector accountant would devote to loan repayment under the standard 10 year repayment plan.[49]

Through a combination of Public Service Loan Forgiveness and IDR plan, public service borrowers can make the same number of payments as a typical borrower would under a standard payment plan (120 months or 10 years of qualifying payments), but with a monthly payment amount that is manageable relative to their salary.

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47 Estimates are based on average loan balances for a four-year public institution, as provided by the Department of Education. *See* U.S. Dept. of Education, *Repayment Estimator* (accessed Feb. 13, 2017), https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action.

48 Research shows that public sector careers typically require more education than many private sector careers. *See, e.g.*, Bender & Heywood, *Out of Balance? supra* note 3.Without additional student loan protections for borrowers working in public service, student loan borrowers may be prevented from pursuing public service careers. *See* Eric Dunlop Velez & Jennie H. Woo, *The Debt Burden of Bachelor's Degree Recipients*, National Center for Education Statistics (Apr. 20 2017), https://nces.ed.gov/pubs2017/2017436.pdf (stating that, "As of 2012, about three-quarters (72 percent) of 2007-2008 bachelor's degree recipients had taken out federal or private student loans to finance their undergraduate and subsequent education."); *see also* CFPB, *Public Service & Student Debt*, *supra* note 1.

49 Note that the private accountant would not benefit from an IDR plan as his monthly payment would exceed the standard 10 year payment. *See* U.S. Dept. of Education, *Repayment Estimator* (accessed Feb. 13, 2017), https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action.

Without Public Service Loan Forgiveness, prolonged periods of income-driven payment would present unique challenges for workers in public service.

Income-driven plans were designed to allow borrowers to secure payment relief in the immediate-term while still making progress toward satisfying their student loan debt.[50] Because borrowers' monthly payments increase as their income increases, the Department of Education estimates that, over the lifetime of a loan, a typical borrower who makes payments based on his or her income will repay more than her initial principal balance.[51] In contrast, public service borrowers may not have this same opportunity because they earn lower starting wages but may not realize equivalent future income gains. As a consequence, many public service borrowers will continue to make lower income-driven payments over a comparatively longer period of time, prolonging the length of their repayment obligation by a decade or more.[52]

As a result, absent PSLF, these public service borrowers may pay comparatively more toward their student debt in total than typical borrowers in IDR plans – a result of accruing interest charges over a prolonged repayment term.[53] In this key respect, PSLF offers a path forward for public service borrowers that IDR alone does not – PSLF ensures that both the total loan costs and the repayment term for these borrowers remain manageable over the long term.

Consider, as an illustration, the social worker identified in the previous example, if she was unable to access to PSLF. Under the newest IDR plan, Revised Pay As You Earn (REPAYE), and

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50 All borrowers enrolled in IDR have access to a range of short-term and long term protections designed to ensure that a typical borrower will be able to satisfy their obligation, either through payoff or loan forgiveness, in a maximum of 20 or 25 years. For further discussion, see CFPB, *Student Loan Servicing*, *supra* note 24.

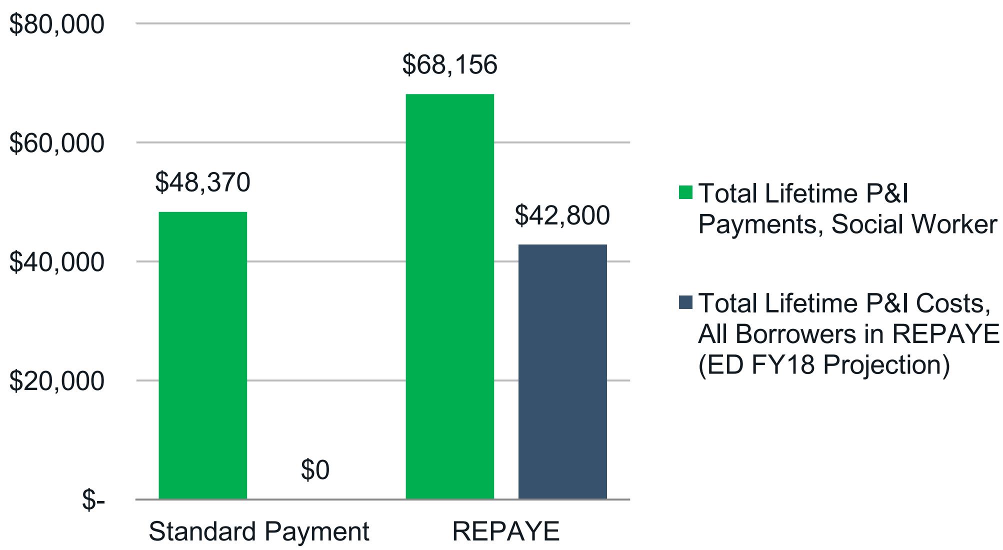
51 *See* U.S. Dept. of Education, *Congressional Budget Justifications FY2018: Student Loans Overview*, Q-6, Q-7 (2017), https://www2.ed.gov/about/overview/budget/budget18/justifications/q-sloverview.pdf (estimating that, for the vast majority of borrowers under nearly all available repayment arrangements, total expected lifetime student loan payments will range from 107 percent to 176 percent of initial principal balance. For borrowers enrolled in Pay As You Earn who earn less than $70,000 and owe more than $25,000, the Department of Education estimates that 90 percent of initial principal balance will be repaid).

52 As compared to an expected loan term of 120 months under the standard, 10 year repayment plan.

53 In contrast to a typical borrower using IDR, many public service borrowers may see more modest increases in their income-driven payments year-after-year, over the course of their decade of service—a direct result of lower starting salaries and more limited opportunities for wage growth in many public service fields.

absent PSLF, this borrower can expect to pay nearly $20,000 more over the lifetime of her loan than she would under the standard 10 year repayment plan (Figure 5).[54] Rather than reducing the total cost of his student debt, REPAYE would, in effect, provide this borrower with a term extension—permitting payment flexibility in the short term but ultimately requiring this borrower to devote a greater share of lifetime earnings to repaying her student debt.

FIGURE 5: TOTAL LIFETIME PRINCIPAL AND INTEREST (P&I) PAYMENTS, ABSENT PSLF [55]



Recent projections made by the Department of Education indicate that this effect is even more pronounced when comparing a public service borrower, absent PSLF, to a typical borrower enrolled in REPAYE.[56] The Department of Education estimated that, in general, borrowers who

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54 *See* U.S. Dept. of Education, *Repayment Estimator*, *supra* note 31. In this example, we assumed that this hypothetical borrower had the same debt and income characteristics as described in the social worker example.

55 *See* U.S. Dept. of Education, *Congressional Budget Justifications FY2018: Student Loans Overview*, Q-6, Q-7 (2017), https://www2.ed.gov/about/overview/budget/budget18/justifications/q-sloverview.pdf

56 *See id.* Readers should also note that, as part of the most recent budget proposal, the U.S. Department of Education recommended that Congress eliminate access to the Public Service Loan Forgiveness program for new borrowers, beginning on July 1, 2018.

earn less than $70,000 per year and owe more than $25,000 in student debt would repay approximately 107 percent of their initial principal balance over the lifetime of their loans.[57]

In contrast, the social worker in this example, absent PSLF, could expect to repay more than 170 percent of her initial principal balance – nearly $70,000 in principal and interest charges – due to his low starting salary.[58] In order to satisfy this debt, this borrower would make steadily increasing payments for more than 23 years, paying more than $25,000 over-and-above the total costs projected for a typical REPAYE borrower with similar characteristics.[59]

The prospect of substantially higher lifetime costs under IDR present a large economic hurdle for borrowers working in public service. As researchers continue to raise concerns that student loan debt may inhibit progress toward important financial milestones, this illustration suggests that PSLF can help protect public service borrowers from the considerable and detrimental effects of high debts and low wages in a way that IDR alone cannot.[60]

3.2.2 How servicing of borrowers pursuing PSLF works (and doesn't yet work) for student loan borrowers

As illustrated above, PSLF can offer powerful protection for borrowers committing to careers in public service. However, complaints from student loan borrowers reveal that a series of obstacles may cause delays or dead ends that can cost them thousands of dollars. The problems highlighted below can trigger extra payments and interest charges, or render a borrower's loans entirely ineligible for PSLF, even after a decade of qualifying public service.

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[57] *See id* (estimating that a borrower who earns, on average, less than or equal to $70,000 throughout his or her full repayment period, and owes more than $25,000 will repay, on average, 107 percent of initial principal balance under REPAYE).

[58] *See* U.S. Dept. of Education, *Repayment Estimator*, *supra* note 31. In this example, we assumed that this hypothetical borrower had the same debt and income characteristics as described in the social worker example.

[59] *See id.*

[60] *See, e.g.*, Hiltonsmith, supra note 10; see also CFPB, Prepared Remarks of Seth Frotman, Hearing Before the CA Senate Comm. on Banking and Financial Institutions (Mar. 22, 2017), http://files.consumerfinance.gov/f/documents/201703_cfpb_Frotman-Testimony-CA-Senate-Banking-Committee.pdf.

Student loan servicers are contracted and compensated for helping consumers navigate the process of qualifying for PSLF. Lenders or loan holders, including the Department of Education, generally contract with private companies to administer all aspects of federal student loan repayment, including answering borrowers' questions about the repayment of federal student loans and about available loan forgiveness programs.[61] Additionally, borrowers who express interest in PSLF rely on their servicers to have the necessary information to help them stay on track with their repayment plans.[62] While the Department of Education contracts with several private companies to service federal student loans, one servicer is specifically designated to service loans for borrowers pursuing PSLF, the Pennsylvania Higher Education Assistance Agency or PHEAA, operating under the FedLoan Servicing brand. In the rest of this report, we refer to this entity as the PSLF servicer.[63]

To be eligible for PSLF, borrowers must meet four basic requirements:

- The borrower must have one or more Direct Loans;
- The borrower must make 120 qualifying payments;
- The borrower must be enrolled in a qualifying repayment plan; and
- The borrower must work full-time for a qualified employer.

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[61] The student loan market is comprised primarily of three types of student loans: (1) federally guaranteed loans made through the Federal Family Education Loan Program (FFELP) by private-sector lenders; (2) federal loans made directly to borrowers by the Department of Education through the William D. Ford Direct Loan Program (Direct Loans); and (3) private student loans. Only Direct Loans are eligible for PSLF. *See* CFPB, *Student Loan Servicing* (Sept. 2015), files.consumerfinance.gov/f/201509_cfpb_student-loan-servicing-report.pdf. FFELP loans are only eligible for PSLF after being consolidated into a Direct Consolidation Loan. *See* U.S. Dept. of Education, *Public Service Loan Forgiveness* (accessed June 6, 2017), https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service - eligible-loans.

[62] *See* U.S. Dept. of Education, *Public Service Loan Forgiveness* (accessed May 5, 2017), https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service (directing borrowers to contact their federal student loan servicer with questions about PSLF).

[63] Borrowers may earn credit toward PSLF while their Direct Loans are serviced by any federal student loan servicer. A borrower's loans are only transferred to the designated PSLF servicer once the borrower successfully certifies that he or she works for a qualified employer by completing the Department of Education's Employment Certification Form. *See ECF*, *infra* note 87. While only one servicer is contracted to service accounts of borrowers who certify interest in PSLF, borrowers can remain eligible for and make qualifying payments towards PSLF prior to submitting an ECF. As such, all federal student loan servicers are integral in assisting borrowers seeking to navigate the PSLF process.

Servicers are the primary point of contact for all borrower questions related to repayment matters, including PSLF requirements. However, borrowers report that servicing obstacles affecting each requirement of the PSLF program have obstructed their ability to successfully make progress towards the loan forgiveness that would support their sustained public service.

Borrower must have one or more Direct Loans

Only loans made under the William D. Ford Direct Loan Program are eligible to be forgiven under PSLF.[64] Borrowers with other types of federal loans, such as Federal Family Education Loan Program (FFELP) Loans or Perkins Loans, are not eligible for PSLF, but student loan borrowers may consolidate these loans into a Direct Consolidation Loan in order to become eligible.[65] When federal student loan borrowers express interest in loan forgiveness while working in public service, they expect their servicer to inform them of how to get on track, including whether they need to consolidate their otherwise ineligible loans.[66] However, borrowers complain that servicers withhold essential information about eligibility for PSLF.

Borrowers report spending years making payments, believing they were making progress towards PSLF, before servicers explain that their loans do not qualify for PSLF. Borrowers with FFELP or Perkins Loans complain to the Bureau that despite informing their servicer that they work in public service, or specifically mentioning that they are pursuing

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[64] *See* 34 C.F.R. § 685.219(c)(1)(iii).

[65] *See* U.S. Dept. of Education, *Public Service Loan Forgiveness* (accessed Feb. 1, 2017), https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service.

[66] Some individual public service organizations, school districts and government agencies now provide information about PSLF to their employees as part of existing workplace financial education. *See, e.g.*, American Federation of Teachers, *Sharing simple solutions with student loan debtors* (2015), https://www.aft.org/periodical/aft-campus/fall-2015/pay-it; U.S. Dept. of Education, *Remarks of U.S. Secretary of Education Arne Duncan to the 2014 National HBCU Conference, HBCUs: Innovators for Future Success* (Sept. 2014), https://www.ed.gov/news/speeches/hbcu-value-proposition ("We've all agreed to . . . talk to our employees about their options for student loan forgiveness, to help them document that they work for a public service organization, and to check in annually with employees to make sure they stay on track."). Additionally, acknowledging the crucial protections offered by the PSLF program, several states require or are considering legislation to require that state government employees receive periodic information about PSLF. *See, e.g.*, Mo. Rev. Stat. § 105.1445 (requiring that the Missouri Department of Higher Education create guidance regarding public employees' eligibility for PSLF).

PSLF, their servicer never advised them that their student loans were not eligible loans. As a result, these borrowers make years of payments that do not count towards PSLF.[67] For example, one consumer states:

> *I started working for a public school and learned about the loan forgiveness program. I called [my servicer] to consolidate my loans to qualify for loan forgiveness. They said that their income based loan would qualify me for the loan forgiveness program. I consolidated my loans, and AGAIN asked "does this qualify me for loan forgiveness program?" They told me, "I was all set!" They also stated that there was no form to submit for loan forgiveness until I completed 120 payments over 10 years so I did not follow up sooner. Recently, I called to check in around this, and was informed that I WAS NOT in the loan forgiveness program, and that I needed to consolidate my loans [into a Direct Loan]. . . I have been paying for 4 years and was misled by this company completely . . . Now I have consolidated my loans [into a] a direct loan, and have ONE payment toward my 10 years.*

For certain populations of borrowers, servicers are aware that they work in public service, yet borrowers complain that servicers do not proactively inform them of their eligibility for PSLF. In particular, complaints from military borrowers indicate they may not be receiving information about PSLF at a time when they can be making substantial progress towards the qualified payment requirement. For example, one borrower reported that his servicer did not explain that his loans were not eligible for PSLF until after years of military service. The borrower was only informed that he needed to consolidate his loans to become eligible for PSLF after he left the military due to a service-related injury.

> *I was told that none of my active military service, including deployments to Afghanistan, would count for PSLF purposes. This is a slap in the face to all Veterans. PSLF is supposed to provide reward those who serve the public. . . . [M]y military service, in which my leg function was sacrificed, did not count for*

[67] Additionally, if these borrowers choose to consolidate, they will lose any prior progress made towards loan forgiveness through 20 or 25 years of payments under an IDR plan. *See* 34 C.F.R. § 682.215(f).

anything [toward PSLF]. This is contrary to the alleged policy for which the PSLF program was created and it is insulting.[68]

Recent changes to industry practices for handling military borrowers should ensure that servicers have a clear understanding of which customers are pursuing active duty military service, which would be employment potentially eligible for PSLF.[69] Each month, the largest student loan servicers use the Department of Defense's Manpower Database (DMDC) to proactively identify their military customers, in order to automatically administer other military specific protections relating to student loans.[70]

Borrowers identify delays and defects in the loan consolidation process that can increase costs and disrupt progress toward loan forgiveness. In order to consolidate FFELP loans into a Direct Consolidation Loan, a borrower must complete a new federal Direct Consolidation Loan application. Borrowers consolidating for purposes of PSLF must choose the designated PSLF servicer.[71] After an application is submitted, the PSLF servicer works with the

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[68] https://www.regulations.gov/document?D=CFPB-2015-0021-0499.

[69] In 2014, the Department of Education announced that it had directed its servicers to "check the names of borrowers against the DMDC." U.S. Dept. of Education, *Improved Administration of the Servicemembers Civil Relief Act for Borrowers under the William D. Ford Direct Loan and Federal Family Education Loan Programs* (Aug. 25, 2014), https://ifap.ed.gov/dpcletters/GEN1416.html. As of July 1, 2016, all FFEL program loan holders were required to "apply the SCRA interest limitation without a request and based on a data match with the DMDC." U.S. Dept. of Education, *Approval of Servicemember Civil Relief Act (SCRA) Interest Rate Limitation Request for Direct Loan and FFEL Programs* (May 5, 2016), https://ifap.ed.gov/dpcletters/GEN1608.html. This data match would alert the servicer to the borrower's active duty status, also indicating that the borrower would be eligible for PSLF if he or she consolidated his or her FFELP loans into a Direct Consolidation Loan.

[70] See U.S. Dept. of Education, Approval of Servicemember Civil Relief Act (SCRA) Interest Rate Limitation Request for Direct Loan and FFEL Programs, supra note 69; see also Govt. Accountability Office (GAO), Student Loans: Oversight of Servicemembers' Interest Rate Cap Could Be Strengthened, GAO-17-4 (Nov. 18, 2016), https://www.gao.gov/products/GAO-17-4. For a further discussion of the unique challenges servicemembers face when seeking to navigate the range of available protections and benefits, see CFPB, Public Service & Student Debt, supra note 1.

[71] *See* U.S. Dept. of Education, Federal Student Aid, *Loan Consolidation* (accessed Feb. 2, 2017), *https://studentaid.ed.gov/sa/repay-loans/consolidation - how-apply*.

borrower's current servicer to obtain loan information, including the remaining loan balance, in order to pay off the original, non-eligible loans and disburse the consolidation loan.[72]

Generally, this process should take no more than 30 days,[73] but borrowers report that the consolidation process can take more than six months to complete because their original servicer does not provide the necessary account information required to complete the consolidation.[74] Additionally, some borrowers complain that the consolidation process is stymied when their servicer incorrectly reports their outstanding balance to the PSLF servicer. Without an accurate balance reported, the PSLF servicer cannot originate the consolidation loan. Other borrowers complain that servicing errors result in some individual loans being left out of the consolidation, preventing borrowers from making qualified payments on all of their loans. Each of these servicing errors can prevent borrowers from making qualifying payments, and ultimately add years and potentially thousands of dollars to repayment.

Borrower must be enrolled in a qualifying repayment plan

To be eligible for PSLF, borrowers must be enrolled in a qualifying repayment plan.[75] Qualifying repayment plans primarily consist of income-driven repayment plans.[76] Graduated and

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72 *See, e.g.*, U.S. Dept. of Education, *Federal Consolidation Loan Verification Certificate*, OMB No. 1845-0036 (2010), https://ifap.ed.gov/dpcletters/attachments/FP0705AttECORRECTEDLVC.pdf.

73 *See* U.S. Dept. of Education, *Transcript for New Direct Consolidation Loan Process Conference Call* (Mar. 25, 2014), ifap.ed.gov.edgekey.net/media/podcasts/NewDirectConsolidationLoanProcessWebinarTranscript.doc.

74 The GAO, in response to a request from Congress, reported, "Because servicers are not compensated for their loss when a loan is transferred, in effect, they are paid less than if they were able to keep all of their assigned loans. Education officials acknowledged that the lack of compensation for transferred loans could be a disincentive for servicers to counsel borrowers about loan consolidation and PSLF. [The Department of Education] said that [it] believes [its] oversight efforts discourage servicers from acting on this potential disincentive." GAO, *Federal Student Loans: Education Could Improve Direct Loan Program Customer Service and Oversight* (May 2016), GAO-16-523, http://www.gao.gov/products/GAO-16-523.

75 *See* 34 C.F.R. § 685.219(c)(1)(iv); *see also* U.S. Dept. of Education, Federal Student Aid, *Public Service Loan Forgiveness: What is a qualifying repayment plan?* (accessed Feb. 2, 2017), https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service - qualifying-repayment-plan.

76 *See* 34 C.F.R. § 685.219(c)(1)(iv). While standard repayment is a qualifying repayment plan, a borrower would pay off his or her loan after ten years, the same time he or she became eligible for loan forgiveness under PSLF.

extended repayment plans generally do not qualify.[77] Any payments made while in a non-qualifying repayment plan will not count towards PSLF. Federal student loan borrowers rely on their servicer to ensure their repayment plan keeps them on track for PSLF.[78]

Borrowers complain that servicers may enroll them into non-qualifying repayment plans, despite borrowers expressing interest in PSLF. Some borrowers complain to the Bureau that despite telling their servicer that they work in public service, their servicer never informs them about PSLF, or the necessary requirements to become eligible for PSLF. Other borrowers complain that their servicer did not enroll them into a qualifying repayment plan, despite expressly telling their servicer that they are pursuing PSLF.[79] Instead, their servicer enrolled them into a non-qualifying plan, like a graduated or extended repayment plan with payments that are too low to be considered qualifying payments. Other borrowers complain that after submitting all required materials to be enrolled into a qualifying IDR plan, their servicer did not accept the applications. In these cases, borrowers reported that servicers either incorrectly denied their applications, or failed to give borrowers a chance to correct any

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[77]Payments made under extended or graduated repayment plans may qualify if "the monthly payment amount is not less than what would have been paid under the Direct Loan standard, 10-year repayment plan described in [the fixed, standard 10 year plan provision]." 34 C.F.R. § 685.219(c)(1)(iv)(D).

[78] *See* CFPB, *Student Loan* Servicing, *supra* note 24. The Bureau has previously reported on how servicers may not be consistently assisting borrowers seeking to enroll in IDR plans. Instead, servicers may be enrolling borrowers in "quick fixes," like forbearance or graduated repayment plans. For borrowers pursuing PSLF, these "quick fixes" prevent them from making qualifying payments for purposes of PSLF, and cause borrowers to accrue unnecessary interest. *See* CFPB, *Student Loan Servicing* 25-27 (Sept. 2015), files.consumerfinance.gov/f/201509_cfpb_student-loan-servicing-report.pdf (paraphrasing comments received in response to a public Request for Information as stating, "the student loan servicing business model rewards companies that minimize the length and complexity of customer contacts . . . when borrowers are trying to find the right option for their needs, servicing personnel may not explain how these benefits work or how the selection of a repayment plan can affect borrowers' long-term financial circumstances.").

[79] In 2010, the PSLF servicer received several accounts in which borrowers with Direct Consolidation Loans were advised by their previous servicer to enroll in a graduated repayment plan, rather than an IDR plan. The PSLF servicer requested and was granted approval from the Department of Education's Office of Federal Student Aid for a "one-time override" of the PSLF qualifying payment counter for borrowers who were misinformed by the previous servicer. *See* Pennsylvania Higher Education Assistance Agency, *Letter to the Committee on Health, Education, Labor, and Pensions from PHEAA* (May 19, 2014) (responding to a request from the committee for information about a large transfer event that identified servicing anomalies).

deficiencies in their applications before issuing a denial.[80] In particular, the Bureau continues to hear from borrowers who struggle to enroll in IDR plans using alternative documentation, and complain that these servicing breakdowns prevent them from enrolling in a qualifying repayment plan, meaning they cannot make progress towards PSLF.[81]

Borrowers who return to school complain that servicers may prevent them from remaining in a qualified repayment plan. Many borrowers who return to school for graduate-level education may still carry debt incurred from undergraduate education. Some of these borrowers choose to attend school while working in public service full-time. As long as these borrowers remain working in public service full-time, and the loans remain in repayment, they can earn credit for payments towards PSLF for their undergraduate loans.[82]

Student loan servicers automatically determine the status of a loan (*e.g.*, in-school, grace, active repayment, etc.) based on the borrower's enrollment status.[83] When a borrower goes to school, all federal loans, including loans for a prior degree or coursework, may be placed into an in-school deferment.[84] For example, a borrower may take out federal student loans for an

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80 As the Bureau previously reported, half of all borrowers in IDR plans use alternative documentation to certify their income. *See* CFPB, *Midyear update on student loan complaints* 14 (Aug. 2016), files.consumerfinance.gov/f/documents/201608_cfpb_StudentLoanOmbudsmanMidYearReport.pdf (reporting that student loan servicers may delay processing IDR applications and wrongfully reject borrowers seeking to enroll in IDR, resulting in increased interest charges and lost eligibility for certain federal benefits and protections).

81 *See* National Consumer Law Center (NCLC), *Letter from Persis Yu to CFPB Student Loan Ombudsman Seth Frotman and FSA Chief Operating Officer James Runcie* (April 14, 2017), http://www.studentloanborrowerassistance.org/wp-content/uploads/2013/05/letter-cfpb-ed-retrieval-tool.pdf; CFPB, *Response Letter from Student Loan Ombudsman Seth Frotman to NCLC Director Persis Yu* (May 2, 2017), http://www.studentloanborrowerassistance.org/wp-content/uploads/2013/05/cfpb-idf-drt-response-letter.pdf.

82 Borrowers also have the ability to consolidate any FFELP loans that are in grace or have already entered repayment, into a Direct Consolidation Loan; borrowers who are enrolled at least half-time can elect to keep their Direct Consolidation loans in repayment rather than placing them into deferment.

83 For more information on enrollment status issues, see CFPB, *Student data & student debt: How student enrollment status problems can make student loans more expensive* (Feb. 2017), https://www.consumerfinance.gov/documents/2640/201702_cfpb_Enrollment-Status-Student-Loan-Report.pdf.

84 When borrowers return to school at least half time, all of their existing federal student loans that have already entered repayment (for example, Stafford loans that have exhausted their six-month grace period) are eligible for in-school deferment, regardless of when the loans were originated. *See* 34 C.F.R. §§ 674.32(b)(1)(i), 682.210, 685.204(b)(1). A servicer may place the borrower's loans into in-school deferment if the borrower provides proof of

undergraduate degree, graduate and enter repayment, and then go back to school for a graduate degree several years later. The borrower has the option of placing her undergraduate loans into in-school deferment when the borrower begins graduate school. The servicer would verify the borrower's enrollment status automatically, and adjust her repayment status accordingly.

However, a borrower also has the option to waive the in-school deferment option on the undergraduate loans and continue to make PSLF-qualifying payments on their student loans at any time, including while they are in school or in grace.[85] Borrowers have the option of keeping their loans in repayment by simply notifying their servicer and providing instructions to maintain their current loan status.

Despite providing instructions to keep their loans in repayment while attending school, borrowers report that upon returning to school, their servicer will automatically place their loans into in-school deferment, preventing borrowers who work in public service while attending school from making qualifying payments under PSLF. Some borrowers note that their loans are repeatedly placed back into in-school deferment, even after advising the servicer that they wish to remain on an income-driven repayment plan while in school. Borrowers complain that it can take months to get their loans back into an IDR plan, resulting in unnecessary accrued interest and missed qualifying payments.

Borrower must work for a qualified employer

The PSLF program's definition of eligible public service employment includes working for a federal, state, local, or tribal government; a not-for-profit organization that is tax exempt under Section 501(c)(3) of the Internal Revenue Code; or other not-for-profit entities that provide

enrollment, the borrower takes out a new federal student loan to attend school, or the servicer receives information regarding the borrower's enrollment status through a third party source. *See* 34 C.F.R. § 685.204(b)(2); *see also id.* The borrower retains the option to cancel the deferment and continue making payments at any time. *See* 34 C.F.R. § 685.204(b)(3).

[85] *See, e.g.*, U.S. Dept. of Education, *Master Promissory Note; Direct Subsidized Loans and Direct Unsubsidized Loans*; William D. Ford Federal Direct Loan Program, OMB No. 1845-0007, https://studentloans.gov/myDirectLoan/subUnsubHTMLPreview.action.

certain public safety, legal, health, or education services.[86] Borrowers can determine whether their employer is a qualified employer for purposes of PSLF by submitting an Employer Certification Form (ECF) to the Department of Education's designated PSLF student loan servicer.[87]

In 2016, the Department of Education began publishing data relating to ECFs submitted by federal student loan borrowers.[88] This data shows that approximately 533,000 student loan

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[86] *See* 34 C.F.R. § 685.219(b). Private not-for-profit organizations that provide the following public services may be considered a qualified employer: "emergency management, military service, public safety, law enforcement, public interest law services, early childhood education . . . public service for individuals with disabilities and the elderly, public health . . . public education, public library services, school library or other school-based services." 34 C.F.R. § 685.219(b)(5)(i). The organization cannot be "a labor union, a partisan political organization, or an organization engaged in religious activities, unless the qualifying activities are unrelated to religious instruction, worship services, or any form of proselytizing." 34 C.F.R, § 685.219(b)(5)(ii).

[87] In January 2012, the Department of Education introduced the ECF to allow borrowers to voluntarily certify interest in PSLF. Failure to submit an ECF does not negate a borrower's ability to apply for PSLF. ECF approval is designed to 1) transfer a borrower's loans to the designated PSLF student loan servicer, and 2) confirm the number of qualifying payments a borrower has made. *See* U.S. Department of Education, *Public Service Loan Forgiveness (PSLF): Employment Certification Form*, OMB No. 1845-0110, https://studentaid.ed.gov/sites/default/files/public-service-employment-certification-form.pdf [hereinafter *ECF*]. *See also* U.S. Dept. of Education, *Public Service Loan Forgiveness* (accessed May 5, 2017), https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service (stating, "To help you determine if you are on the right track as early as possible, we have created an Employment Certification for Public Service Loan Forgiveness form (Employment Certification form) that you can submit periodically while you are working toward meeting the PSLF eligibility requirements. We will use the information you provide on the form to let you know if you are making qualifying PSLF payments."); *see also* U.S. Dept. of Education, *Public Service Loan Forgiveness*, Federal Student Aid Training Conf. for Financial Aid Professionals (Dec. 2015), http://fsaconferences.ed.gov/conferences/library/2015/2015FSAConfSession5.ppt [hereinafter *FSA 2015*].The Bureau and the Department of Education recommend borrowers submit the ECF for approval each time they change employers, and at least every year, in order to keep track of qualifying payments. *See* U.S. Dept. of Education, *Public Service Loan Forgiveness* (accessed May 15, 2017), https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service (stating, "Although you are not required to do so, we encourage you to submit the Employment Certification form annually or whenever you change jobs, so that we can help you track your progress toward meeting the PSLF eligibility requirements."); CFPB, *Ask CFPB: What is Public Service Loan Forgiveness?* (accessed May 15, 2017), https://www.consumerfinance.gov/askcfpb/641/what-public-service-loan-forgiveness.html (stating, "Each year, you should resubmit the Employment Certification for Public Service Loan Forgiveness form so that you can keep track of your qualifying payments and make sure you stay on the road toward loan forgiveness.").

[88] *See* U.S. Dept. of Education, Federal Student Aid Data Center, *Student Aid Data: Loan Forgiveness Reports* (accessed Mar. 14, 2017), https://studentaid.ed.gov/sa/about/data-center/student.

borrowers had approved ECFs on file with the Department of Education by the end of 2016.[89] The data also shows that each year, approximately one-third of borrowers are denied employer certification, most commonly due to errors on the submitted form.[90]

Borrowers complain that student loan servicers may be slow to provide accurate guidance to assist borrowers in completing their ECF. The Department of Education contracts with the designated PSLF servicer to assist borrowers in completing the ECF.[91] When borrowers seek to complete the ECF, they often rely on their own servicer to answer any questions regarding completing the form. Borrowers seeking to complete their ECF complain that their servicer can take months to respond to questions about their ECF, creating uncertainty with regard to whether the payments being made in the meantime will count toward the 120-payment requirement.

Borrowers complain that when their ECF is denied, their servicer does not provide enough information to understand the reason for denial. Borrowers who believe their employment qualifies for PSLF report that their servicer may deny their ECF without enough information about the reason for the denial so that the borrower may take action. Borrowers report being unsure on whether there was an error on the application, an inability of the servicer to confirm borrowers' employment information, or a servicer error in processing the application. For example, one borrower explained that his ECF was denied because his servicer determined his employer was not qualified, but a week later, his coworker's ECF was approved.

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[89] *Id.*

[90] FSA reports that in 2016, of the ECFs denied, 47 percent were denied for missing or incorrect information, 32 percent were denied for ineligible loans, and 21 percent were denied for not having a qualified employer. *See* U.S. Dept. of Education, *2016 FSA Training Conference for Financial Aid Professionals* (Nov. 2016), http://fsaconferences.ed.gov/conferences/library/2016/2016FSAConfSession18.ppt.

[91] *See ECF*, *supra* note 87 (stating "For help completing this form, call the PSLF servicer.").

Borrower must make 120 qualifying payments

Borrowers must make a series of 120 qualifying payments in order to earn loan forgiveness under the PSLF program.[92] The payments do not need to be consecutive, allowing borrowers who temporarily leave the public sector or who experience periods of unemployment the opportunity to maintain their progress towards the 10 year payment requirement.[93] The payments must be in-full and timely, making accurate payment processing and recordkeeping critical servicing functions for borrowers working towards PSLF.[94]

Borrowers complain that servicers do not inform them that if they consolidate their loans, all previous qualified payments will be lost. If a borrower consolidates his or her individual Direct Loans into a consolidation loan, any payments made towards PSLF will be lost.[95] While a borrower may want to consolidate to allow for a simpler monthly payment, if he or she has already made qualifying payments, consolidation may not be the best option.[96] Borrowers report that when discussing the option of consolidating their student loans, servicers do not explain that doing so will reset their count towards 120-payments, causing them to lose any progress they have already made towards loan forgiveness. Borrowers complain that had their servicer informed them that consolidation would restart the payment clock, they would have consolidated their loans earlier, or not at all, in order to preserve their qualified payment history.

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92 A payment counts toward the 120-month counter if the payment is made (1) after October 1, 2007; (2) during a month when the borrower was working full time for an eligible employer; and (3) on time - no later than 15 days after the scheduled due date. *See* 34 C.F.R. § 685.219(c)(1)(iii).

93 See FSA 2015, supra note 87.

94 To be considered timely, payments must be made within 15 days of the due date. *See* U.S. Dept. of Education, *Public Service Loan Forgiveness: Questions and Answers for Federal Student Loan Borrowers* (Dec. 2015), https://studentaid.ed.gov/sa/sites/default/files/public-service-loan-forgiveness-common-questions.pdf. For more information regarding servicing breakdowns related to payment processing, see CFPB, *Student Loan Servicing*, *supra* note 24.

95 *See* U.S. Dept. of Education, *Federal Direct Consolidation Loan Application and Promissory Note*, OMB No. 1845-0053 (2016), https://static.studentloans.gov/images/ApplicationAndPromissoryNote.pdf.

96 *See* CFPB, *Ask CFPB: Should I consolidate my federal loans?* (accessed Feb. 22, 2017), https://www.consumerfinance.gov/askcfpb/603/should-i-consolidate-my-federal-loans.html.

Borrowers complain that upon submitting their ECF, their servicer provides inaccurate counts of qualified payments made by borrowers. If an ECF submitted by a borrower is approved for qualified employment, the servicer will then review the account to provide an up-to-date count of qualified payments made for purposes of PSLF.[97] This review allows borrowers to monitor their progress towards PSLF, and if necessary, alert their servicer to issues related to their qualified payments prior to applying for PSLF.[98] Borrowers complain that when their servicer reports a qualified payment count that borrowers believe to be inaccurate, borrowers struggle to get their servicer to correct the error or explain why payments were not qualified.

Borrowers complain that when servicers fail to process IDR recertification paperwork on time, they remove the borrower's loans from IDR, which delays qualifying payments and increases payments and interest. If a borrower is enrolled in an IDR plan, he or she must "recertify" income and family size every year.[99] To do so, the borrower should submit recertification paperwork no later than 25 days before the end of each annual period.[100] Servicers are then expected to process the paperwork and determine the borrower's payment amount for the next year before the next annual period begins.[101] When servicers fail to process the paperwork on time, the Department of Education has created a framework to protect consumers– the servicer must keep the borrower at the same payment

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97 *See FSA 2015*, *supra* note 87; *ECF supra* note 87.

98 *See* CFPB, *Ask CFPB: What Is Public Service Loan Forgiveness?* (accessed Feb. 22, 2016), https://www.consumerfinance.gov/askcfpb/641/what-public-service-loan-forgiveness.html (stating, "Each year, you should resubmit the Employment Certification for Public Service Loan Forgiveness form so that you can keep track of your qualifying payments and make sure you stay on the road toward loan forgiveness.").

99 *See* 34 C.F.R. §§ 682.215(e), 685.209(a)(5), (b)(1)(v), (c)(4); *see also* CFPB, *When you make student loan payments on an income-driven plan, you might be in for a payment shock* (Aug. 17, 2015), https://www.consumerfinance.gov/about-us/blog/when-you-make-student-loan-payments-on-an-income-driven-plan-you-might-be-in-for-a-payment-shock.

100 Servicers that receive IDR recertification applications more than 10 days after the annual repayment period ends are required to revert the borrower's payment amount back to his or her standard 10 year payment amount, and capitalize any accrued interest. *See* 34 C.F.R. §§ 682.215(e)(3)(i)-(ii), 685.209(a)(5)(iii)(A)-(B), (b)(3)(vi)(B)(1)-(2), (c)(4)(iii)(A)-(B).

101 *See* 34 C.F.R. §§ 682.215(e)(3)(i), 685.209(a)(5)(iii)(A), (b)(3)(vi)(B)(1), (c)(4)(iii)(A).

level until it is able to process the paperwork for the next year.[102] These payments, like other IDR payments, would count towards PSLF.[103] However, borrowers have complained that when their servicers are unable to process timely recertification paperwork before the annual period ends, instead of keeping borrowers in IDR, servicers are either placing the borrower back in standard 10-year payments or placing borrowers in forbearance. Borrowers in this situation cannot afford their standard 10 year payment amount, so they must often opt for forbearance. As these borrowers' loans sit in forbearance, needless interest accrues and progress towards PSLF is slowed.

Military borrowers complain that they struggle to access basic protections designed to ease the burden of recertification. The strains of military life may make the necessary annual requirements to remain on track for PSLF through enrollment in IDR particularly burdensome. As a result, many military borrowers struggle to obtain the key protections tied to IDR. The Bureau estimates that each year, nearly 6,000 servicemembers suffer direct economic hardship driven by IDR recertification obstacles.[104] Military borrowers can be hit especially hard when their payments snap back to their standard monthly payment. Unaffordable payments can impact the borrower's credit, which plays a critical role in obtaining and maintaining a security clearance; or the borrower can spend months or years in military deferment, causing him or her to miss out on interest subsidies and progress toward loan forgiveness.

After a servicing transfer, borrowers report that their previous qualifying payments may not be reflected in the payment histories maintained by the new servicer. When a borrower submits an ECF that triggers a servicing transfer, the designated PSLF servicer will conduct a review of the borrower's payment history to provide a total count of qualified payments towards PSLF.[105] Generally, loan holders, including the Department of

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[102] *See* 34 C.F.R. §§ 685.209(a)(5)(viii)(A), (b)(3)(vi)(E), (c)(4)(viii)(A), 685.221(e)(8)(i), (ii).

[103] *See* 34 C.F.R. §§ 685.209(a)(5)(viii)(A)(3), (b)(3)(vi)(E)(1)(iii), (c)(4)(viii)(A)(3), 685.221(e)(8)(i)(C).

[104] See CFPB, Prepared Remarks of Seth Frotman, Assistant Director and Student Loan Ombudsman, at the Judge Advocate General's Legal Center and School (Oct. 18, 2016), http://files.consumerfinance.gov/f/documents/201610_cfpb_Frotman-Remarks-JAG-School.pdf.

[105] See FSA 2015, supra note 87.

Education, require servicers to track payments through servicing transfers, so that the receiving servicer has an accurate record of all payments made during the life of the loan. Borrowers, particularly those whose loans went through multiple servicing transfers, complain that when the PSLF servicer conducts the review of payments, qualified payments at previous servicers are not counted. Other borrowers complain that their loans were removed from their IDR plan upon transfer and without notice, and so when borrowers continued to submit the same payment amount, the payments were considered non-qualifying partial payments, rather than qualifying IDR payments.

Borrowers complain that servicing breakdowns may delay enrollment in an IDR plan, in turn hindering their ability to make progress towards PSLF. The Bureau has previously discussed the harm a borrower faces when servicers are slow to enroll the borrower in an IDR plan.[106] Borrowers continue to complain to the Bureau about how these delays inhibit their ability to obtain affordable monthly payments, forcing them to cease progress towards PSLF until the servicing errors can be corrected.[107] Borrowers explain that these delays inhibit their ability to make qualified payments driven by their income, or borrowers can end up making dozens of unnecessary payments, costing them thousands of dollars that they might otherwise never have had to pay.

Borrowers who receive third-party payment assistance, including employer repayment assistance, complain that when their monthly benefit is more than their monthly payment, the servicer may advance their monthly payments, rendering all future payments as non-qualifying payments. Many borrowers may choose to work for employers that offer student loan repayment assistance in the form of a monthly stipend that is automatically put towards his or her student loan payment. Borrowers tell us that if this amount exceeds the monthly payment amount due under their IDR plan,

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[106] *See* CFPB, *Midyear update on student loan complaints*, *supra* note 80; CFPB, *Student Loan Servicing*, *supra* note 24; CFPB, *Supervisory Highlights: Issue 13, Fall 2016* (Oct. 2016), http://files.consumerfinance.gov/f/documents/Supervisory_Highlights_Issue_13__Final_10.31.16.pdf.

[107] The payments made under a standard, ten year repayment plan can be counted towards the 120 month payment requirement for PSLF. However, as previously discussed, these payments are usually not affordable for borrowers working in public service. *See also* CFPB, *Midyear update on student loan complaints supra* note 80 at 21.

servicers may apply the extra funds to future payments.[108] When the payment is advanced such that no monthly payment is due, borrowers complain that even when they continue to make monthly payments (that are both on time and in an amount equal to a qualified payment amount), their payments may not be considered qualifying payments.[109]

Borrowers complain that after providing payment instructions to their servicer indicating that excess payments should not advance the due date, their servicer will still advance the due date. Other borrowers, particularly those with automatically debited payments, complain that they do not realize their advanced payments are not qualifying payments until years later, when they learn that several months or years of previous payments will not count towards PSLF. As one borrower explains:

> *I am a nurse and have worked full time since 2012 aside from maternity leave. I was fortunate to qualify for [employer-based loan repayment assistance], which helps me make payments for 3 years, providing me more money each month than I am required to pay to [my servicer]. Recently I submitted my Public Service Loan Forgiveness (PSLF) certification but was shocked to see that I have only made 14 qualifying payments in the 4 years that I have been working at my [employer]. [My servicer's] justification is that the extra money that I paid on top of what was due, automatically was put towards the next month, disqualifying ALL of those payments from PSLF. . . . I find it outrageous and disheartening that by default, overpaying your bill each month would result in "Paid Ahead" disqualifying payments from the PSLF program, unless I had taken additional steps to personally request that the money not be put towards the following month. I feel like the last 3 years of my payments have*

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[108] *See* CFPB, *Ask CFPB*: *Can I make additional payments on my student loan?* (accessed Mar. 10, 2017), https://www.consumerfinance.gov/askcfpb/607/can-i-make-additional-payments-my-student-loan.html.

[109] *See* U.S. Dept. of Education, *Public Service Loan Forgiveness* (accessed Mar. 9, 2017), studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service ("If you make a monthly payment for more than the amount you are required to pay, you should keep in mind that you can receive credit for only one payment per month, no matter how much you pay. You can't qualify for PSLF faster by making larger payments. However, if you do want to pay more than your required monthly payment amount, you should contact your servicer and ask that the extra amount not be applied to cover future payments. Otherwise, you may end up being paid ahead, and you can't receive credit for a qualifying PSLF payment during a month when no payment is due.").

been wasted, and my [employer-based loan repayment assistance] program actually extended my PSLF months. This results in 3 years of additional payments, which is real money.

4. Recommendations

As the issues described in this report highlight, inaccurate or inadequate information provided to borrowers and the inconsistent administration of program requirements suggest that many consumers who may expect to receive loan forgiveness in the coming months could learn that they are ineligible or have not met the requirements of the program. Many borrowers may learn that they have additional months or even years of repayment ahead of them, while others could discover that they are not on track for loan forgiveness at all and are unable to get credit for the entirety of their prior public service.

The Department of Education has sought public comment in connection with developing a process to assist borrowers when applying for loan forgiveness under the PSLF program.[110] As awareness of PSLF grows, borrowers will increasingly look to their servicers for information regarding all aspects of this program. Policymakers and student loan industry participants may wish to consider the following recommendations as they work to ensure borrowers have full access to the range of benefits and protections guaranteed under federal law, including those offered through the PSLF program.

- **Review process for borrowers provided with inaccurate information.** In 2010, after several hundred borrowers indicated intent to pursue PSLF and were advised by their servicer to enroll in an ineligible repayment plan, the Department of Education approved a one-time waiver to allow these borrowers to receive credit towards PSLF for payments made while enrolled in an extended repayment plan, which otherwise would

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[110] The Department of Education sought public comment on its proposed information collection related to borrowers seeking PSLF. *See* U.S. Dept. of Education, *Application and Employment Certification for Public Service Loan Forgiveness* (Dec. 15, 2016), https://www.regulations.gov/document?D=ED-2016-ICCD-0144-0001.

have been ineligible. Consequently, the harm these borrowers experienced as a result of inaccurate information from their servicer was reversed. However, for other borrowers outside of this narrow cohort who are enrolled in ineligible repayment plans but attempting to pursue PSLF, the harm resulting from inaccurate information is currently irreversible. Policymakers seeking to assist these borrowers should consider whether additional flexibility is necessary to ensure borrowers are able to secure these benefits, where borrowers received inaccurate information provided by their student loan servicer.

- **Strengthened servicing standards for all borrowers helps those working in public service.** In 2015, the Bureau received over 30,000 public comments in response to a request for information describing specific student loan servicing practices that may be contributing to student debt stress.[111] Many of these comments related to struggles that borrowers experienced when trying to enter and stay in an IDR plan. Since that time, the Bureau has taken supervisory and enforcement actions to address illegal student loan servicing practices related to the administration of IDR.[112]

As a necessary requisite of PSLF, any servicing problem borrowers face related to IDR is also a problem borrowers face related to PSLF. Policymakers and industry participants that are looking to improve the student loan servicing market for borrowers working in public service may wish to consider the following recommendations.

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[111] *See* CFPB, *Request for Information Regarding Student Loan Servicing* (May 21, 2015), https://www.consumerfinance.gov/students/request-for-information-on-student-loan-servicing/.

[112] *See also* CFPB, *CFPB Sues Nation's Largest Student Loan Company Navient for Failing Borrowers at Every Stage of Repayment* (Jan. 18, 2017), https://www.consumerfinance.gov/about-us/newsroom/cfpb-sues-nations-largest-student-loan-company-navient-failing-borrowers-every-stage-repayment ("When borrowers run into trouble repaying their federal student loans, they have a right under federal law to apply for repayment plans that allow for a lower monthly payment. But the Bureau believes that Navient steers many borrowers into forbearance. From January 2010 to March 2015, the company added up to $4 billion in interest charges to the principal balances of borrowers who were enrolled in multiple, consecutive forbearances. The Bureau believes that a large portion of these charges could have been avoided had Navient followed the law."); CFPB, *Supervisory Highlights, Issue No. 13 (Fall 2016)*, https://www.consumerfinance.gov/data-research/research-reports/supervisory-highlights-issue-no-13-fall-2016/; CFPB, *Supervisory Highlights: Issue 10, Winter 2016* (Mar. 2016), http://files.consumerfinance.gov/f/201603_cfpb_supervisory-highlights.pdf.

- **Early servicer engagement on the availability and benefits of IDR**. Borrowers who contact their servicer to express financial distress would be well-served if they were first advised about the availability of IDR and the associated benefits, such as PSLF. Borrowers would benefit from early and active servicer engagement to help determine if they are eligible for PSLF, and understand how enrollment in an IDR plan is a first step towards loan forgiveness.

- **Protection from negative consequences caused by processing delays.** Borrowers who submit their recertification application by the stated deadline are permitted under federal law to continue making qualifying payments at their current payment level until the servicer can fully process the recertification application.[113] However, as complaints described in this report indicate, borrowers who submit timely recertification applications may still spend months in forbearance waiting for servicers to recalculate their monthly IDR payment. For recertifying borrowers who submit their paperwork on-time, if a servicer fails to process the paperwork on-time, servicers should keep the borrower at the same payment level until it is able to process the paperwork for the next year, as required under federal law.[114] These interim payments, like other IDR payments, should count towards loan forgiveness.[115]

- **Timely and actionable reminders of upcoming recertification requirements.** Borrowers would be well-served by uniform, clear, periodic, plain language reminders, including proactive outreach by servicing personnel, about the need to recertify income and family size to remain enrolled in an IDR plan. Reminder notices should clearly identify the date by which the borrower must submit the recertification application, and the consequences of failing to recertify. Borrowers pursuing PSLF would benefit from a clear understanding that failure to recertify will prevent them from making progress towards PSLF.

[113] *See* 34 C.F.R. §§ 685.209(a)(5)(viii)(A), (b)(3)(vi)(E), (c)(4)(viii)(A), 685.221(e)(8)(i), (ii).

[114] *See* 34 C.F.R. §§ 685.209(a)(5)(viii)(A), (b)(3)(vi)(E), (c)(4)(viii)(A), 685.221(e)(8)(i), (ii).

[115] *See* 34 C.F.R. §§ 685.209(a)(5)(viii)(A), (b)(3)(vi)(E), (c)(4)(viii)(A), 685.221(e)(8)(i), (ii).

- **Assistance with recertifying income and family size, if needed.** Borrowers would be well-served by easy access to servicing staff to assist them with the completion of their recertification applications. Borrowers who fail to recertify on time should benefit from receiving additional communications explaining how to recertify, and the benefits of income-driven repayment.

- **Accurate and accessible tracking of payments and progress towards PSLF.** Borrowers report finding years of payment history are lost when they are assigned a new servicer. Additionally, transferee servicers may be unable to adequately assist borrowers if they have not received the entirety of the borrowers' account history.[116] Borrowers and servicers would be well-served by retaining records of a borrower's entire account history for the life of the loan, from origination to payoff. Borrowers would benefit from being able to request the entirety of their payment histories from their current servicer, regardless of how many previous companies serviced the account. Servicers would benefit from having the same access and having records of all documents submitted by a borrower, regardless of the identity of the servicer to which the documents were submitted. Finally, borrowers would benefit from receiving robust notices from the transferor and transferee servicer. These notices could be sent before and after a servicing transfer and include detailed account information, as well as information on how to contact servicing personnel if the borrower has questions about his or her account. Student loan servicers may look to these new standards when considering options to improve customer service and address some of the problems identified in this report.

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[116] One servicer, after receiving a transfer of student loan accounts that did not have accurate account history files, stated "borrowers may have experienced undue hardship as a result . . . or been forced to reapply [for deferment, forbearance, or repayment schedule changes] unnecessarily." *See* Pennsylvania Higher Education Assistance Agency, *Letter to the Committee on Health, Education, Labor, and Pensions from PHEAA* (May 19, 2014) (responding to a request from the committee for information about a large transfer event that identified servicing anomalies).

Conclusion

The Bureau has received hundreds of federal student loan servicing complaints from borrowers struggling to navigate the PSLF program. The Bureau will continue to monitor these complaints as it oversees market participants administering the PSLF program, and to engage in activities to encourage compliance with legal obligations by participants in this market. Additionally, the Bureau released updated education loan examination procedures specific to the servicing of student loans of borrowers pursuing PSLF to guide its examiners in identifying noncompliant conduct and other risks to consumers across the student loan market.[117] The Bureau is committed to monitoring the industry for key issues and illegal practices affecting borrowers who are trying to access key consumer protections so they can continue to give back to their communities.

[117] *See* CFPB, *Education loan examination procedures* (June 22, 2017), http://content.consumerfinance.gov/policy-compliance/guidance/supervision-examinations/education-loan-examination-procedures/.

5. Contact information

To reach the CFPB's Student Loan Ombudsman:

By email	students@cfpb.gov
By mail	Consumer Financial Protection Bureau 1700 G Street NW Washington, DC 20552

To submit a complaint:

Online	consumerfinance.gov/complaint
By phone	180+ languages, M-F 8am-8pm EST Toll-Free: (855) 411-CFPB (2372) TTY/TDD: (855) 729-CFPB (2372)
By mail	Consumer Financial Protection Bureau PO Box 4503 Iowa City, Iowa 52244
By fax	(855) 237-2392

Additional resources to assist student loan borrowers

Public Service Pledge
https://www.consumerfinance.gov/pledge/

Repay Student Debt web tool
http://www.consumerfinance.gov/paying-for-college/repay-student-debt

Paying for College suite of tools
www.consumerfinance.gov/paying-for-college/

APPENDIX A:

Tagging definitions

Issue tag	Definition
Billing Statement	Consumer complained of issues relating to receipt of or information included on a billing statement.
Borrower Communications	Consumer complained of issues relating to the availability of alternative repayment options when the standard payment is not affordable, but did not expressly indicate intent or efforts to enroll in an IDR plan.
Collection Activity	Consumer complained of issues relating to collection tactics and/or treatment of defaulted loans.
Credit Reporting	Consumer complained of issues relating solely to the way student loans are reported to credit bureaus, when the cause for any derogatory reporting is not at issue.
Educational Institution	Consumer complained of issues relating to the institution for which the consumer received student loans.
IDR Plan Enrollment	Consumer complained of issues relating to initial enrollment in an income-driven plan, including receiving information about the availability of IDR plans and submitting an application to the servicer.
Payment Allocation	Consumer complained of issues relating to the allocation of a payment, either across multiple loans or to principal and interest for a single loan.
Payment Processing	Consumer complained of issues relating to the processing of his or her payment.
Payoff	Consumer complained of issues relating to final payoff of his or her student loan (refinancing, payoff statement, etc.).
Public Service Loan Forgiveness	Consumer complained of issues relating to Public Service Loan Forgiveness, including issues related to eligibility and qualifying payments.