

# CFPB Issues Statement Following Reports of Widespread Student Loan Servicing Failures

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The Consumer Financial Protection Bureau (CFPB) recently focused its attention on the student loan industry following alleged widespread servicing failures reported by borrowers and found by the CFPB's examinations and investigations. Over 40 million Americans owe more than \$1.2 trillion in student loan debt, with an average federal student loan debt burden per borrower of \$30,000. Thus, student loans constitute the second-largest type of consumer debt following mortgages. The CFPB reports that more than one-in-four student loan borrowers are delinquent or in default on a student loan. Against this backdrop, the CFPB launched a public inquiry into the practices of the student loan servicers in May 2015. The CFPB received over 30,000 comments revealing a host of problems alleged by borrowers, organizations, state attorney generals, and banking regulators. In a [150-plus page report](#), the CFPB discussed the issues confronting the student loan industry. These problems include:

- Inaccurate billing statements being provided to borrowers;
- Confusion among borrowers when the servicer of their loans changes;

- Difficulties in obtaining timely and accurate information in order to refinance student loans;
- Student loans being declared in default upon the death or bankruptcy of a co-signer despite the borrower's timely submission of monthly payments;
- Processing of monthly payments in a manner that maximizes costs and fees;
- Failures to provide information about various repayment options that could help borrowers avoid default;
- Failures to provide notices to consumers enrolled in income-based repayment plans regarding re-certification deadlines and requirements;
- The proliferation of debt relief scams that attempt to charge borrowers for enrolling them in free federal programs

The reports and findings led to a Joint Statement of Principles on Student Loan Servicing by the CFPB, the U.S. Department of the Treasury, and the U.S. Department of Education. The statement includes the following recommendations:

- Servicers should provide “effective student loan servicing, including but not limited to, conduct related to payment processing, servicing transfers, customer requests for information, error resolution, and disclosure of borrower repayment options and benefits.”
- Servicers should provide accurate information to borrowers.
- Servicers should be held accountable for violations of federal or state consumer financial laws, the Higher Education Act, contractual arrangements, and federal regulations.
- The public should have access to information about the performance of private and federal student loans and the practices of lenders and servicers.

The recommendations relate to all four types of student loans: (1) Direct Loans, which are federal loans made by the U.S. Department of Education; (2) Federal Family Education Loan Program loans, which were originated by private lenders and guaranteed by the federal government; (3) federal Perkins loans, which are funded by colleges and universities as well as the federal government; and (4) private student loans. In light of the CFPB's findings and recommendations, the establishment of student loan servicing best practices must be analyzed alongside a host of federal and state consumer protection laws, federal legislation such as the Higher Education Act, and federal regulations.

## Related Practices

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