



## **The Case for Accountability in Student Loan Servicing Support SB 1068**

### **Problem:**

As the student debt burden surpasses \$1.4 trillion, more than 44 million student loan borrowers look to their student loan servicers to help them navigate the road to repayment.<sup>1</sup> Unfortunately, these servicers have a poor track record of assisting students and have routinely taken advantage of the nearly opaque student loan arena to act as predatory debt collectors, instead of customer service guides. Currently, the Consumer Financial Protection Bureau's (CFPB) complaint database hosts approximately 718 complaints related to student loan servicing from Maryland borrowers.<sup>2</sup>

These servicers are committing many of the same offenses that the mortgage servicing industry participated in leading up to the financial crisis. As more federal student protections are rolled back, Maryland has a unique opportunity to reinstate vital protections for borrowers in our state.

### **Solution:**

The student loan servicing section of SB 1068 clarifies and makes explicit that student-loan servicers should be licensed by the Commissioner of Financial Regulation. Not only will this classification assert stronger consumer protections on the student loan servicing industry, but it will enable the Commissioner of Financial Regulation's Office to examine and license these firms, as well as hold them accountable.

It also creates an ombudsman role – housed within the Commissioner of Financial Regulation's office – to help student borrowers who are having problems with their student loans or with their servicer.

### **What Does a Student Loan Servicer Do?:**

A student loan servicer's job is to act as the liaison between a student and a financial institution that makes a student loan. Their responsibilities include collecting and processing payments, offering advice for borrowers about payment plans, and generally help a student keep their loans in good standing. According to the U.S. Department of Education's Federal Student Aid Office, a student loan servicer provides the customer service aspect of the loan repayment process, handling "the billing and other services," and assisting "[borrowers] with other tasks related to [their] federal student loan."<sup>3</sup>

### **Background:**

In Maryland, 56% of students graduate with debt from attending an educational institution. On average, Maryland students graduate with \$27,672 in debt.<sup>4</sup> Upon matriculation, these students begin to pay back their loans with the assistance of a student loan servicer.

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<sup>1</sup> <https://www.consumerfinance.gov/about-us/newsroom/cfpb-monthly-snapshot-spotlights-student-loan-complaints/>

<sup>2</sup> <https://www.consumerfinance.gov/data-research/consumer-complaints/>

<sup>3</sup> <https://studentaid.ed.gov/sa/repay-loans/understand/servicers>

<sup>4</sup> [http://ticas.org/posd/map-state-data#overlay=posd/state\\_data/2016/md](http://ticas.org/posd/map-state-data#overlay=posd/state_data/2016/md)



According to a 2015 report from the CFPB, through the federal loan rehabilitation program, collectors are paid as much as \$40 for every dollar they collect from struggling borrowers, even if borrowers find themselves back in default. This incentivizes collectors to focus on short-term borrower outcomes – like, getting a borrower to quickly complete a nine-month rehabilitation process – but offers no incentive for them to provide guidance towards affordable long-term payment options.<sup>5</sup>

### **Student Loan Servicing in Maryland:**

In the student loan section of the CFPB’s consumer complaint database, the largest number of complaints from Maryland consumers are related by topic to student loan servicing. Sixty percent of the 1,200 student loan complaints from Maryland student borrowers fell into this category. Some of these consumers felt that their payments had been mismanaged. Others felt that they had received bad information about their loan from their servicer. Other complaints were directly related to customer service, disagreements about fees, etc.<sup>6</sup>

*“This is the third year I have been kicked off Income Driven Repayment by [my servicer], FedLoan, while they ‘process’ my re-certification. In the meantime, I have been forced into either forbearance... I have filed my paperwork on time every year, they have taken 3-6 months to process it. Twice placing me on the incorrect repayment plan and costing me thousands of dollars while they corrected the plan the second time... I know I am not alone stuck in the FedLoan incompetence trap.”*

–A Maryland borrower, from the Consumer Financial Protection Bureau’s complaint database.

### **Disproportionate Effects on People of Color, Women, and Older Adults**

According to a recent report from the Brookings Institute, Black college graduates owe, on average \$7,400 more than their white classmates. As time passes, the “debt gap” more than triples to \$25,000 in difference, thanks to rapidly accruing interest.<sup>7</sup>

In addition, student loan debt creates a disproportionate burden on women in the United States. The research report, *Deeper In Debt: Women and Student Loans*, was released by the American Association of University Women and found that female students are more likely to take on student debt than their male counterparts, and are slower to repay that debt, thanks to the gender pay gap. “Upon completion of a bachelor’s degree, women’s average accrued student debt is about \$1,500 greater than men’s, and black women take on more student debt on average than do members of any other group.”<sup>8</sup>

And it’s not just millennials who are facing crushing student loan debt – older adults are increasingly facing garnishment of their Social Security benefits for disability or retirement, thanks to often decades-old student debt.

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<sup>5</sup><https://www.consumerfinance.gov/about-us/newsroom/cfpb-projects-one-three-rehabilitated-student-loan-borrowers-will-re-default-within-two-years/>

<sup>6</sup> <https://data.consumerfinance.gov/dataset/Consumer-Complaints/s6ew-h6mp>

<sup>7</sup> <https://www.brookings.edu/research/black-white-disparity-in-student-loan-debt-more-than-triples-after-graduation/>

<sup>8</sup> <https://www.aauw.org/research/deeper-in-debt/>



Many senior citizens took out loans years ago to pursue mid-career training or support a child or grandchild's dreams.

According to Consumer Reports' research, about 7 million adults over the age of 50 currently hold student loan debt.<sup>9</sup> As our population continues to age, it is expected that we'll see increases in Social Security garnishments related to student loan debt.

People of color, women, and older adults are all impacted greatly by student loans. Quality student loan servicing is an incredibly integral resource for these communities, that are already systematically disadvantaged by societal and financial structures. If Maryland hopes to build wealth within communities where financial growth is most crucial, student borrower protections must be strengthened to assist learners facing the greatest obstacles.

### **Echoes of the Red Flags that Led Up to the Mortgage Crisis:**

Many of the issues around student loan servicing mirror those that emerged amongst mortgage servicers in the years leading up to the housing crisis. Misplaced payments, incorrect information being reported to credit bureaus, poor advice from servicer to borrower, etc. are all red flags in the student loan servicing industry that are eerily similar to those warning signs of the impending mortgage crisis of 2007. However, unlike mortgage servicers, student loan servicers cannot be sued if a payment is applied improperly, simply because there is a lack of consistent industry standards around student loan servicers that would clarify the road to a lawsuit.<sup>10</sup>

Today, there are far more consumer protections and mechanisms for accountability surrounding mortgage servicers than student loan servicers. We must act preemptively to avoid another bubble burst.

Other states, including Connecticut, California, and Illinois, as well as Washington DC have already taken action with similar bills and many other states are currently working on developing legislation that would provide a Student Borrowers' Bill of Rights for their communities.

### **Benefits of Clarifying the Line of Accountability for Student Loan Servicers:**

When student loan servicers are doing their jobs to the best of their abilities, both students and lenders benefit. Instead of being forced into deferment or forbearance, students are better able to negotiate payment plans and thereby remain in good standing with their lending institution and work towards repayment.

**The passage of SB 1068 is a clarification of our current laws that will codify the ways student loan servicers can be held accountable. This is a key protection for student loan borrowers, as their rights are stripped away at the federal level.**

**Support SB 1068 to help student loan borrowers and outline accountability for servicers in Maryland.**

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<sup>9</sup> <https://www.consumerreports.org/student-debt/solutions-for-seniors-who-are-in-default-on-student-loans/>

<sup>10</sup> <http://www.consumerreports.org/student-loan-debt-crisis/student-loans-vs-mortgages-what-makes-student-debt-different/>