STUDENT BORROWER
PROTECTION CENTER

States for Student Borrower Protection

Frequently Asked Questions

1. **Why should states start overseeing student loan companies?**

Quite simply, because states can't afford not to.

Forty-four million people are depending on them. The student loan market currently sits at $1.5 trillion—larger than the markets for car loans or credit cards, and second only to mortgages. Student loan borrowers each owe, on average, more than $30,000 in student loan debt.

This unprecedented level of debt has a huge impact on the financial futures of residents of every state in the country. When borrowers struggle to repay student loan debt, it can impact their ability to buy homes, start businesses, build wealth, and save for retirement. But the impact is even broader than that—student debt drives income, wealth, and racial inequality in communities across the country.

It is painfully clear that the federal government has failed to control of the student loan market, which has undoubtedly turned into a debt crisis. Last year, more than one million student loan borrowers defaulted on a federal student loan. That's one default every 28 seconds, despite programs in place that should make it nearly impossible to default on a federal student loan. People deserve to have their government leaders—the ones that that know their community, their concerns, and their life experiences—looking out for them.

2. **Aren't student loans only a problem for millennials?**

Student loans are a problem for everyone. From servicemembers to seniors, everyone is grappling with the burden of student debt.

In fact, senior citizens are the fastest growing group of student loan borrowers in the country. According to the New York Federal Reserve Bank, the number of student loan borrowers 60 and older increased by 420 percent between 2005 and 2015. And tens of thousands of these seniors are having their Social Security benefits seized due to defaulted student loans, often driving them into poverty.

This is why groups ranging from Student Veterans of America to AARP have publicly supported measures that seek to rein in the abuses committed by student loan servicers.

3. **Isn't the real problem simply that people aren't paying back their debts?**

Millions of people are trying to pay back their student loans, but they are facing roadblocks at every turn. From misapplied payments, to lost paperwork, to misinformation from customer service representatives, student loan borrowers are fighting an uphill battle against student loan companies who cannot even get the basics right.

For example, a recent investigation by the Associated Press uncovered a secret Education Department audit of one large student loan servicer that revealed that company employees routinely pushed borrowers to refrain from making payments. As this audit explains, even "after the borrower made a promise to repay within a short time," the company advised borrowers that they should take a longer break from making payments instead.

4. **That sounds serious, what other type of harmful practices do servicers engage in?**

Servicers engage in sloppy and harmful practices that hurt every type of borrower, with every type of loan, at every stage of repayment. These problems can cost borrowers thousands of dollars and leave them even deeper in debt.

For example:

- When veterans have their loans discharged due to a service-connected disability, servicers have illegally reported their loans as "in default" to credit bureaus.
- When teachers and police officers have tried to access loan forgiveness they earned through public service, servicers routinely overcharged and misled them, causing their loans balances to increase.
- When borrowers contact their servicers for payment relief while struggling with unemployment or financial distress, servicers have steered them into repayment plans that increase the cost of their loans and deny them access to federal protections. By one estimate, these illegal practices at one large servicer resulted in more than $4 billion in unnecessary interest charges tacked on to borrowers' accounts.

And when the largest student loan servicer in the country was called out for these illegal practices, it simply replied, "there is no expectation that the servicer will act in the interest of the consumer".

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5. **So what can states do?**

State-based oversight of student loan companies has a simple goal: holding the student loan industry accountable for obeying the laws that are already on the books. Each legislative session, more and more states are recognizing that they must get off of the sidelines and stand up for their citizens struggling with student debt.

States legislatures representing millions of student loan borrowers have already taken action to increase oversight over these student loan companies, crack down on illegal practices, and demand restitution when borrowers get hurt. These states made the student loan market safer for their residents by passing bills that give state banking agencies the authority and tools to oversee student loan companies and stop abuses when and where they occur.

More states must follow this path. State and local government leaders are on the front lines of the fight to tackle the student debt crisis, witnessing problems in their neighborhoods, communities, and cities. These leaders are also in the best position to take steps to stop these problems—passing new legislation to expand oversight and demand accountability from the student loan industry.

6. **Industry lobbyists and administration officials say that states have no role in overseeing a federal program. What authority do states have to oversee the student loan market?**

While it is true that the over a trillion of dollars of student loan debt was made directly by the government, the companies that manage it are among the largest private sector financial services companies in the country.

No one is proposing that state governments regulate the U.S. Department of Education. Student loan servicers handle billions of dollars of consumer debt and pay their executives multi-million-dollar bonuses. These are the companies that states are seeking to regulate—plain and simple.

States have always played a significant role in overseeing financial markets. As the Conference of State Bank Supervisors (CSBS) explained earlier this year, "responsibility for regulating and supervising debt collectors—like other nonbank financial services—has historically resided at the state level... to be more accountable to local concerns." States oversee everything from banks to debt collectors to payday lenders. States' commitment to comprehensive consumer protection demands that they play an enhanced role in overseeing student loan companies—the companies responsible for handling loans in one of the largest consumer debt markets in the country.

7. Have officials in my state weighed in on the need for oversight over student loan companies?

Yes! A growing chorus of state governors, law enforcement officials, and state banking regulators have strongly supported states' right to oversee private-sector student loan companies. For example:

- A bipartisan coalition of 25 attorneys general rejected Betsy DeVos's assertion that states had no role in overseeing this market.
- The Conference of State Bank Supervisors (CSBS) opposed any action by the Department of Education to preempt state authority.
- The National Governors Association also came out against the Education Department's interpretation, noting that states stepped up to fill the void left by the absence of federal protections for borrowers.

8. Servicers say that they aren't the bad guy, that the problem is colleges. Or state legislatures. Or Congress. Shouldn't we be focusing on reducing the cost of college or simplifying repayment options?

As billion-dollar companies spend their time pointing fingers, borrowers are suffering. Last year, over one million student loan borrowers defaulted on a federal loan. A million more borrowers defaulted the year before that, and the year before that. All of these defaults occurred despite a range of protections that should make nearly impossible to default.

When another borrower defaults every 28 seconds, we need to do more than point fingers. Companies that are receiving millions of dollars in taxpayers funds each year are failing the very borrowers that they are being paid to serve. No silver bullet is going to fix all of the problems plaguing the student loan market, but addressing the widespread failures of the handful of companies running the market is an important step.

9. Several not-for-profit servicers operate in my state. Shouldn't they be exempted from state laws to expand oversight?

Not-for-profit servicers play a critical role in the servicing of both federal and private student loans. These companies may have started as regional or state-based firms providing loans to students in your community, but they have evolved into enormous financial services companies handling loans for tens of millions of student loan borrowers.

Exempting not-for-profit servicers would cut off accountability for more than 30 percent of the federal student loan market, and a huge portion of the private student loan market that contracts with not-for-profit servicers to handle their portfolios. Additionally, not-for-profit servicers handle the loans for some of the most important federal loan programs that are intended to protect teachers, nurses, first responders, and social workers.

In fact, the largest not-for-profit servicer, the Pennsylvania Higher Education Assistance Agency or PHEAA, also known as FedLoan Servicing or American Education Services (AES), handles more than $420 billion in student loan debt—more than a quarter of all student loans in America.

While an exemption for not-for-profit student loan companies might sound appealing on its face, there is something much more nefarious happening below the surface. This type of exemption is just another cleverly crafted, special interest giveaway that benefits huge student loan companies at borrowers' expense.