

No. 19-2116

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**IN THE UNITED STATES COURT OF APPEALS  
FOR THE THIRD CIRCUIT**

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COMMONWEALTH OF PENNSYLVANIA  
By Attorney General Josh Shapiro,

*Plaintiff-Appellee,*

v.

NAVIENT CORPORATION; NAVIENT SOLUTIONS, LLC.

*Defendants-Appellants.*

On Appeal from the United States District Court  
for the Middle District of Pennsylvania  
No. 3-17-cv-01814  
Hon. Robert D. Mariani, U.S. District Judge

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**BRIEF OF AMICUS CURIAE STUDENT BORROWER PROTECTION  
CENTER, SENIORLAW CENTER, CENTER FOR RESPONSIBLE  
LENDING, THE LAWYERS' COMMITTEE FOR CIVIL RIGHTS UNDER  
LAW, NEW JERSEY CITIZEN ACTION, AND COMMUNITY LEGAL  
SERVICES OF PHILADELPHIA IN SUPPORT OF APPELLEE THE  
COMMONWEALTH OF PENNSYLVANIA AND URGING AFFIRMANCE**

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**CORPORATE DISCLOSURE STATEMENT AND STATEMENT OF  
AUTHORSHIP AND FUNDING**

In accordance with Federal Rule of Appellate Procedure 26-1, Amici Curiae Student Borrower Protection Center, SeniorLAW Center, Center for Responsible Lending, New Jersey Citizen Action, The Lawyers' Committee for Civil Rights Under Law, and Community Legal Services of Philadelphia, by and through their attorneys, disclose that each of them is a registered non-profit corporation and has no parent corporation, and that no publicly held corporation owns 10% or more of its stock. Each is authorized to file this amicus brief by its governing documents.

The Student Borrower Protection Center further discloses that it is funded through and affiliated with the Resources Legacy Fund, a tax-exempt 501(c)(3) organization, and that no publicly held corporation owns 10% or more of Resources Legacy Fund's stock.

Center for Responsible Lending further discloses that it is a supporting organization of the Center for Community Self-Help, which is also a 501(c)(3) non-profit organization. Neither Center for Responsible Lending nor Center for Community Self-Help has issued shares or securities.

Pursuant to Federal Rule of Appellate Procedure 29(a)(4)(E), amici further state that (i) no party's counsel authored this brief in whole or in part, (ii) no party or party's counsel contributed money intended to fund the preparation or

submission of the brief, and (iii) no person other than amici curiae and its members and counsel contributed money intended to fund the preparation or submission of this brief.

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## TABLE OF CONTENTS

	<b>Page</b>
CORPORATE DISCLOSURE STATEMENT AND STATEMENT OF AUTHORSHIP AND FUNDING .....	i
TABLE OF AUTHORITIES .....	v
STATEMENT OF IDENTIFICATION AND INTEREST .....	1
SUMMARY OF THE ARGUMENT .....	2
ARGUMENT .....	4
I.    MISREPRESENTATIONS BY STUDENT LOAN SERVICERS INFLICT FINANCIAL HARM ON VULNERABLE POPULATIONS, INCLUDING OLDER BORROWERS AND PERSONS OF COLOR.....	4
A.    Older Student Loan Borrowers Comprise a Growing Segment of this Intergenerational Population, and May Face Financial and Cognitive Issues that Threaten Their Own Financial Security in Retirement. ....	4
1.    Older student loan borrowers face financial and access issues that make them more likely to be negatively impacted by servicer misrepresentations.....	5
2.    Older people – even those who are not in decline – experience natural cognitive changes that may impair financial decision-making.....	9
3.    The impact of servicer misrepresentations on older persons can be devastating. ....	10
B.    Borrowers of Color Are More Likely Than Their White Peers to Be Subjected to and Injured by Servicer Misrepresentations. ....	13

1.	Historic and systemic racial disparities mean that students of color are more likely to experience difficulty repaying their student loans.....	13
2.	Servicer misrepresentations impose additional costs on students of color and reinforce systemic inequality. ....	19
II.	THE HEA DOES NOT PREEMPT CLAIMS ARISING FROM SERVICERS’ AFFIRMATIVE MISREPRESENTATIONS.....	22
A.	Claims Based on Servicer Misrepresentations and False Promises Concerning Its Own Actions Are Not Preempted by § 1098g.....	22
B.	The Commonwealth’s Misrepresentation-Based Claims Cannot Be Re-Cast as “Improper Disclosure” Claims Preempted by § 1098g.....	24
C.	The Commonwealth’s CPL Claims Do Not Conflict with the HEA.....	28
	CONCLUSION.....	31
	CERTIFICATE OF COUNSEL	
	CERTIFICATE OF SERVICE	

**TABLE OF AUTHORITIES**

	<b>Page(s)</b>
<b>Cases</b>	
<i>Adams v. Pa. Higher Educ. Assistance Agency</i> , 787 SE 2d 583 (W. Va. Sup. Ct. 2016) .....	29
<i>Altria Grp., Inc. v. Good</i> , 555 U.S. 70 (2008).....	22, 27, 30
<i>Chae v. SLM Corp.</i> , 593 F.3d 936 (9th Cir. 2010) .....	passim
<i>Cipollone v. Liggett Grp., Inc.</i> , 505 U.S. 504 (1992).....	passim
<i>Cliff v. Payco Gen. Am. Credits, Inc.</i> , 363 F.3d 1113 (11th Cir. 2004) .....	28, 29
<i>College Loan Corp. v. SLM Corp.</i> , 396 F.3d 588 (4th Cir.2005) .....	23
<i>Gorton v. American Cyanamid Co.</i> , 533 N.W.2d 746 (Wis. Sup. Ct. 1995) .....	30
<i>Lockhart v. United States</i> , 546 U.S. 142 (2005).....	11
<b>Statutes</b>	
15 U.S.C. § 1334 .....	25, 26
20 U.S.C. § 1095a .....	11
20 U.S.C. § 1098e .....	29
31 U.S.C. § 3716 .....	11, 12
<b>Other Authorities</b>	
AMERICAN ASSOCIATION OF UNIVERSITY WOMEN, <i>DEEPER IN DEBT</i> (2017).....	16, 17
Amy Traub et al., <i>The Asset Value of Whiteness: Understanding the Racial Wealth Gap</i> DEMOS (2017) .....	14

Anek Belbase and Geoffrey T. Sanzenbacher, *Cognitive Aging: A Primer*,  
 CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE (Nov. 2016).....9

Annie Nova, *Why buying a home can be almost impossible with massive student  
 loan debt*  
 CNBC (April 19, 2018) .....20

Ben Miller, *New Federal Data Show a Student Loan Crisis for African American  
 Borrowers*,  
 CENTER FOR AMERICAN PROGRESS (Oct. 16, 2017).....17

Brian D. James, et al., *Correlates of Susceptibility to Scams in Older Adults  
 Without Dementia*,  
 26(2) J. ELDER ABUSE NEGL. 107 (2014) .....10

BUREAU OF LABOR STATISTICS,  
 MEDIAN WEEKLY EARNINGS BY EDUCATIONAL ATTAINMENT IN 2014  
 (Jan. 2015) .....16

CONSUMER FINANCIAL PROTECTION BUREAU,  
 OLDER CONSUMERS AND STUDENT LOAN DEBT BY STATE (August 2017).....5, 7

CONSUMER FINANCIAL PROTECTION BUREAU,  
 SNAPSHOT OF OLDER CONSUMERS AND STUDENT LOAN DEBT  
 (January 2017) .....6

CONSUMER FINANCIAL PROTECTION BUREAU, OFFICE FOR OLDER AMERICANS,  
 ISSUE BRIEF: SOCIAL SECURITY CLAIMING AGE AND RETIREMENT SECURITY  
 (Nov. 2015).....12

Diane Oakley et al., *Retirement in America – Out of Reach for Most Americans?*  
 NATIONAL INSTITUTE ON RETIREMENT SECURITY (Sept. 2018)..... 10, 11

FINANCIAL INDUSTRY REGULATORY AUTHORITY, FINANCIAL CAPABILITY IN THE  
 UNITED STATES 2016  
 (2016).....16

Herbst, Daniel J., *Liquidity and Insurance in Student Loan Contracts: Estimating  
 the Effects of Income-Driven Repayment on Default and Consumption*  
 (Working Paper, March 12, 2019).....21

Judith Scott-Clayton and Jing Li, *Black-white disparity in student loan debt more  
 than triples after graduation*,  
 THE BROOKINGS INSTITUTE (Oct. 2016) ..... 14, 15, 17

Juliette Cubanski et al., *How Many Seniors Live in Poverty*,  
 HENRY J. KAISER FAMILY FOUNDATION  
 (Nov. 19, 2018).....6

Katie Nodjimbadem, *The Racial Segregation of American Cities Was Anything But Accidental*  
 SMITHSONIAN (2017) .....14

Kelley Anne Smith, *Survey: Student loan debt delays major financial milestones for millions*  
 BANKRATE (Feb. 27, 2019).....20

Kristin Blagg, *The demographics of income-driven student loan repayment*  
 URBAN WIRE (Feb. 2018) .....19

Leadership Conference on Civil & Human Rights, *Gainful Employment: A Civil Rights Perspective*,  
 CENTER FOR RESPONSIBLE LENDING (Nov. 2014) .....15

Lincoln Quillian, et al., *Meta-analysis of field experiments shows no change in racial discrimination in hiring over time*,  
 114(41) PROCEEDINGS OF THE NATIONAL ACADEMY OF SCIENCES OF THE UNITED STATES OF AMERICA 10870 (Oct. 2017).....15

Lori Trawinski et al., *The Student Loan Debt Threat: An Intergenerational Problem*,  
 AARP PUBLIC POLICY INSTITUTE (May 2019) ..... passim

Mark Huelsman, *The Debt Divide: The Racial and Class Bias Behind the “New Normal” of Student Borrowing*  
 DEMOS (2015) .....14

Marshall Steinbaum and Kavya Vaghul, *How the student debt crisis affects African Americans and Latinos*,  
 WASHINGTON CENTER FOR EQUITABLE GROWTH (Feb. 17, 2016) ..... 16, 18

Michal Grinstein-Weiss et al., *Racial disparities in education debt burden among low- and moderate-income households*,  
 65 CHILDREN AND YOUTH SERVICES REVIEW Vol. 166 (June 2016).....15

Monica Anderson and Andrew Perrin, *Tech Adoption Climbs Among Older Adults*  
 PEW RESEARCH CENTER (May 17, 2017).....8

Peter Smith and Leslie Parrish, *Do Students of Color Profit from For-Profit College? Poor Outcomes and High Debt Hamper Attendees’ Futures*,  
 CENTER FOR RESPONSIBLE LENDING (Oct. 2014).....15

Rachel Jenkins et al., *Debt, Income, and Mental Disorder in the General Population*,  
 38 PSYCHOL MED. 1485 (2008) .....3

THE URBAN INSTITUTE, DEBT IN AMERICA: AN INTERACTIVE MAP  
(2018).....18

U.S. DEP’T OF EDUC., FEDERAL STUDENT AID, DATA CENTER,  
FEDERAL STUDENT LOAN PORTFOLIO SUMMARY .....2

U.S. GOVERNMENT ACCOUNTABILITY OFFICE,  
FEDERAL STUDENT LOANS: ACTIONS NEEDED TO IMPROVE OVERSIGHT OF  
SCHOOLS’ DEFAULT RATES,  
GAO-18-163 (April 2018).....20

U.S. GOVERNMENT ACCOUNTABILITY OFFICE,  
FEDERAL STUDENT LOANS: EDUCATION COULD IMPROVE DIRECT LOAN  
PROGRAM CUSTOMER SERVICE AND OVERSIGHT,  
GAO-16-523 (May 2016).....20

U.S. GOVERNMENT ACCOUNTABILITY OFFICE,  
SOCIAL SECURITY OFFSETS, IMPROVEMENTS TO PROGRAM DESIGN COULD  
BETTER ASSIST OLDER STUDENT LOAN BORROWERS WITH OBTAINING  
PERMITTED RELIEF,  
GAO-17-45 (Dec. 2016).....13

U.S. GOVERNMENT ACCOUNTABILITY OFFICE, SOCIAL SECURITY OFFSETS,  
IMPROVEMENTS TO PROGRAM DESIGN COULD BETTER ASSIST OLDER  
STUDENT LOAN BORROWERS WITH OBTAINING PERMITTED RELIEF,  
GAO-17-45 (Dec. 2016).....12

Zack Friedman, *Student Loan Debt Statistics In 2019: A \$1.5 Trillion Crisis*,  
FORBES (Feb. 25, 2019) .....2

**Regulations**

12 C.F.R. § 1090.106 .....3

## **STATEMENT OF IDENTIFICATION AND INTEREST**

Amici are non-profit organizations dedicated to protecting the interests of student loan borrowers, older people, minorities, and marginalized communities.

The Student Borrower Protection Center is a non-profit organization focused on alleviating the burden of student debt for Americans by engaging in advocacy and policymaking to protect borrowers' rights and advance economic opportunity for the next generation of students.

The SeniorLAW Center is a non-profit organization dedicated to seeking justice for older Pennsylvanians by using the power of the law, educating the community, and advocating on local, state and national levels. It provides legal advice, representation and advocacy for older clients and consumers, including those facing diverse student loan issues.

The Center for Responsible Lending is a non-profit organization dedicated to eliminating abusive practices in the market for consumer financial services and to ensuring that consumers benefit from the full range of consumer protection laws designed to prohibit unfair and deceptive practices by financial services providers.

The Lawyers' Committee for Civil Rights Under Law ("Lawyers' Committee") is a tax-exempt, non-profit civil rights organization founded in 1963 at the request of President John F. Kennedy to vindicate the civil rights of African Americans and other racial and ethnic minorities. This charge includes combatting

racial discrimination which hinders educational opportunities and economic security for racial minorities and other disadvantaged populations.

New Jersey Citizen Action is a statewide grassroots non-profit organization that fights for social, racial and economic justice, by combining on the ground organizing, legislative advocacy, and electoral campaigns.

Community Legal Services, Inc. is a non-profit organization which provides free legal assistance to low-income Philadelphians in civil matters. CLS attorneys represent consumers in a wide range of matters to maintain economic security, including direct client representation to address student loan problems.

### **SUMMARY OF THE ARGUMENT**

Currently in the United States, approximately 43 million people owe over \$1.4 trillion on their federal student loans.<sup>1</sup> Americans owe more in student loan debt than for auto loans, credit cards, or any other non-mortgage debt.<sup>2</sup> Student loan servicers play a critical role in these borrowers' financial lives, from receiving and applying payments to interacting with struggling borrowers to facilitate

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<sup>1</sup> See U.S. DEP'T OF EDUC., FEDERAL STUDENT AID, DATA CENTER, FEDERAL STUDENT LOAN PORTFOLIO SUMMARY, spreadsheet available for download at <https://studentaid.ed.gov/sa/about/data-center/student/portfolio>.

<sup>2</sup> Zack Friedman, *Student Loan Debt Statistics In 2019: A \$1.5 Trillion Crisis*, FORBES (Feb. 25, 2019), <https://www.forbes.com/sites/zackfriedman/2019/02/25/student-loan-debt-statistics-2019/#47aae5ab133f>.

repayment and prevent default.<sup>3</sup> A competent servicer can assist financially distressed borrowers in accessing income-driven repayment (“IDR”). Unfortunately, servicer misrepresentations can increase the cost of struggling borrowers’ loans and delay repayment. The consequences of servicers’ misconduct can be catastrophic for struggling borrowers’ financial and personal lives.<sup>4</sup>

The consequences of servicer misconduct fall disproportionately on members of vulnerable communities who are more likely to struggle with repayment, including older borrowers and borrowers of color. Older borrowers often face limited and declining income and less access to technology, which increases the likelihood that they are exposed to servicer misrepresentations. Unfortunately, older borrowers may also experience cognitive changes that increases the risk that they will be harmed by those misrepresentations.

Borrowers of color are also more likely than their white peers to experience servicer misrepresentation. First, historical practices preventing inter-generational wealth-building mean that borrowers of color graduate with more student loan debt

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<sup>3</sup> See 12 C.F.R. § 1090.106(a) (defining “student loan servicing”).

<sup>4</sup> Research indicates people with insurmountable debt have elevated rates of neurosis, psychosis, alcohol dependence, and drug dependence. See generally Rachel Jenkins et al., *Debt, Income, and Mental Disorder in the General Population*, 38 PSYCHOL MED. 1485 (2008).

than their white counterparts. Second, the over-representation of students of color in the student bodies of predatory, for-profit schools and ongoing workplace discrimination mean that borrowers of color are more likely to struggle with repayment of those loans. Servicer misrepresentations increase the costs of those loans and erect another barrier to wealth building, perpetuating the cycle.

The enforcement of traditional state consumer protection laws is critical to redress harm done to borrowers impacted by unlawful servicer conduct. There is no evidence that Congress intended 20 U.S.C. § 1098g to preempt the state's traditional power to prohibit affirmative misrepresentations, and the Commonwealth's claims promote, rather than conflict with, the Higher Education Act's ("HEA") purposes. This Court should therefore adopt a narrow reading of that statute, consistent with states' traditional responsibility to protect its constituents from unfair or deceptive business practices.

## **ARGUMENT**

### **I. MISREPRESENTATIONS BY STUDENT LOAN SERVICERS INFLICT FINANCIAL HARM ON VULNERABLE POPULATIONS, INCLUDING OLDER BORROWERS AND PERSONS OF COLOR.**

#### **A. Older Student Loan Borrowers Comprise a Growing Segment of this Intergenerational Population, and May Face Financial and Cognitive Issues that Threaten Their Own Financial Security in Retirement.**

Student debt is no longer just a young persons' issue. As of December 2018, approximately 8.4 million Americans aged 50 and older owe \$289.5 billion in

student loans, approximately 20% of total student loan debt.<sup>5</sup> This represents a 512% increase from the \$47.3 billion owed by that cohort in 2004, making the growth of student loan debt among older borrowers the greatest among any age group.<sup>6</sup> A 2017 analysis by the Consumer Financial Protection Bureau reveals that from 2012 to 2017, total student loan debt for borrowers aged 60 and above increased by 72% in New Jersey, 107% in Pennsylvania, and 146% in Delaware.<sup>7</sup>

Many of the growing number of older borrowers face challenges that make them more reliant on their loan servicers for assistance and more vulnerable to misrepresentations by those servicers.

**1. Older student loan borrowers face financial and access issues that make them more likely to be negatively impacted by servicer misrepresentations.**

Poverty is a serious problem for older Americans. An analysis of U.S. Census Bureau data found that “[m]ore than 15 million older adults had incomes below 200% of poverty” measured against the Census Bureau’s official poverty

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<sup>5</sup> Lori Trawinski et al., *The Student Loan Debt Threat: An Intergenerational Problem*, p. 4, AARP PUBLIC POLICY INSTITUTE (May 2019), available at <https://www.aarp.org/content/dam/aarp/ppi/2019/05/the-student-loan-debt-threat.doi.10.26419-2Fppi.00064.001.pdf>.

<sup>6</sup> *Id.* at pp. 1, 4.

<sup>7</sup> CONSUMER FINANCIAL PROTECTION BUREAU, OLDER CONSUMERS AND STUDENT LOAN DEBT BY STATE, Table 3 (August 2017), [https://files.consumerfinance.gov/f/documents/201708\\_cfpb\\_older-consumers-and-student-loan-debt-by-state.pdf](https://files.consumerfinance.gov/f/documents/201708_cfpb_older-consumers-and-student-loan-debt-by-state.pdf).

measure (representing 30% of that age cohort), a number that “increases to more than 21 million (42.0%)” when measured against the Census Bureau’s Supplemental Poverty Measure.<sup>8</sup> Moreover, older Americans who live on low, fixed incomes face the additional challenge of few if any options to increase their income or reduce poverty while costs of housing, health care, and other basic human needs continue to rise.

Whether living in poverty or not, older adults must balance obligations, often within a fixed income. Increased student loan indebtedness adds to the equation, forcing difficult choices. For example, the Consumer Financial Protection Bureau found that 39% of those 60 and older with a student loan skipped health or dental care, compared to 25% of those without a student loan.<sup>9</sup> Unsurprisingly, being forced to choose between debt and basic needs pushes older adults into even greater challenges.

The data show that record numbers of older student loan borrowers are struggling with repayment. Delinquency rates for student loan borrowers over 60

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<sup>8</sup> Juliette Cubanski et al., *How Many Seniors Live in Poverty*, p. 1, HENRY J. KAISER FAMILY FOUNDATION (Nov. 19, 2018), <https://www.kff.org/medicare/issue-brief/how-many-seniors-live-in-poverty/>.

<sup>9</sup> CONSUMER FINANCIAL PROTECTION BUREAU, SNAPSHOT OF OLDER CONSUMERS AND STUDENT LOAN DEBT, p. 13 (January 2017), [https://files.consumerfinance.gov/f/documents/201701\\_cfpb\\_OA-Student-Loan-Snapshot.pdf](https://files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf).

in the Third Circuit increased slightly from 2012 to 2017, but due to the growing number of older borrowers, the number of older borrowers in delinquency on their student loans has jumped by 93% in New Jersey and Pennsylvania, and 106% in Delaware, far above the 80% increase experienced by the nation as a whole.<sup>10</sup>

Older borrowers also have worse student loan outcomes when compared to younger cohorts. AARP reports that “[d]ata compiled by the Government Accountability Office (GAO) found that federal student loan borrower defaults increase with age.”<sup>11</sup> In 2015, approximately 29% of federal student loan borrowers between 50 and 64 were in default; for borrowers aged 65 and above, the default rate rose to 37%.<sup>12</sup> Conversely, default rates for those below 50 was 17%.<sup>13</sup>

Many older borrowers, particularly those with low income, also have less access to technology that could help them to find answers to their student loan questions. The Pew Research Center concluded that “internet and broadband adoption among older adults varies substantially across a number of demographic

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<sup>10</sup> CFPB, OLDER CONSUMERS AND STUDENT LOAN DEBT BY STATE, *supra* note 7, at Tables 4 and 5.

<sup>11</sup> Trawinski et al., *supra* footnote 5, at p. 5.

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

factors – most notably age, household income and educational attainment.”<sup>14</sup> For example, only half of older people with household income between \$30,000 and \$50,000 per year, and only 27% of those with annual household income below \$30,000, have home broadband.<sup>15</sup> As a result, the older borrowers most in need of accurate information about managing their student loans are least able to access it on the Department of Education’s website,<sup>16</sup> nonprofit resources,<sup>17</sup> or through technology hosted by their servicers.

Older borrowers’ financial struggles and relative lack of access to technology mean that they may require more direct telephonic interaction with loan servicers to manage their student loan debt. Unfortunately, this is the primary medium in which the alleged misrepresentations are made. To compound the problem, older borrowers face additional challenges that leave them more susceptible to servicer misrepresentations, and illustrate the importance of a state law remedy.

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<sup>14</sup> Monica Anderson and Andrew Perrin, Tech Adoption Climbs Among Older Adults, PEW RESEARCH CENTER (May 17, 2017), <https://www.pewinternet.org/2017/05/17/technology-use-among-seniors/>.

<sup>15</sup> *Id.*

<sup>16</sup> *E.g.*, <https://studentaid.ed.gov/sa/repay-loans>.

<sup>17</sup> *E.g.*, <https://www.studentloanborrowerassistance.org/resources/>.

**2. Older people – even those who are not in decline – experience natural cognitive changes that may impair financial decision-making.**

Because even otherwise functional older adults experience declines in cognitive functions affecting financial decision-making and ability to spot misrepresentations, older student loan borrowers are particularly vulnerable to being misled over the telephone.

Normal aging processes lead to predictable age-related changes in cognitive ability that can affect the capacity to make financial decisions, and to distinguish sound advice from misrepresentations, particularly with unfamiliar subjects like student loan repayment plans. One study found that

On average, starting in an individual's 30s or 40s, reaction speed starts to slow, working memory starts to deteriorate, and other components of fluid intelligence begin to weaken, with noticeable declines in fluid intelligence widespread by the time people are in their 50s and 60s...With respect to [everyday] tasks, older adults have a harder time reading or hearing when confronted with distractions, are more prone to making errors when asked to perform under time pressure, and are less able to acquire and transfer new information.<sup>18</sup>

Fluid intelligence incorporates memory, attention and information processing. Research has found that normally aging individuals are more likely to

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<sup>18</sup> See Anek Belbase and Geoffrey T. Sanzenbacher, *Cognitive Aging: A Primer*, CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE, P. 3 (Nov. 2016), [https://crr.bc.edu/wp-content/uploads/2016/10/IB\\_16-17.pdf](https://crr.bc.edu/wp-content/uploads/2016/10/IB_16-17.pdf).

develop deficits in the area of financial judgment than in their ability to carry out basic tasks.<sup>19</sup> While the effect of aging varies significantly, “older age and lower levels of cognitive function, decreased psychological well-being, and lower literacy in particular may be markers of susceptibility to financial victimization in old age.”<sup>20</sup> For borrowers experiencing difficulty in repaying their student loans, phone conversations with a servicer are commonly stressful and involve the discussion of new information related to the suitability of loan repayment options. This can make older student loan borrowers more vulnerable to misrepresentations and steering.

**3. The impact of servicer misrepresentations on older persons can be devastating.**

Older borrowers often face both decreased income and increased health care costs. The median retirement account balance among working Americans is \$0.00, and 57% do not own any retirement account assets in a 401(k) plan or individual retirement account.<sup>21</sup> For those nearing retirement, 68% of individuals 55 to 64

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<sup>19</sup> *Id.* at 1.

<sup>20</sup> Brian D. James, et al., *Correlates of Susceptibility to Scams in Older Adults Without Dementia*, 26(2) J. ELDER ABUSE NEGL. 107 (2014), <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3916958/pdf/nihms509695.pdf>.

<sup>21</sup> Diane Oakley et al., *Retirement in America – Out of Reach for Most Americans?*, pp. 10, 18, NATIONAL INSTITUTE ON RETIREMENT SECURITY (Sept. 2018), [https://www.nirsonline.org/wp-content/uploads/2018/09/SavingsCrisis\\_Final.pdf](https://www.nirsonline.org/wp-content/uploads/2018/09/SavingsCrisis_Final.pdf).

have retirement savings of less than their annual income.<sup>22</sup> Where student loan servicers' misrepresentations increase the cost of loans, result in unnecessary payments, or lead to default, older borrowers in financial difficulty may be pushed into more severe financial straits or even bankruptcy.<sup>23</sup>

The federal government's extraordinary collection powers applicable to those in student loan default can be particularly devastating for low-income older borrowers who are most likely to default. The Treasury Offset Program allows the Treasury to offset a defaulted borrower's income tax refund, and even a portion of his or her Social Security retirement or disability benefits.<sup>24</sup> For those older borrowers still working, the Department of Education can require an employer to garnish a portion of the borrower's wages.<sup>25</sup> As demonstrated above, older borrowers are more likely to default than other cohorts. Data also shows that older defaulted borrowers were more likely to be subject to a federal offset: 5% of

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<sup>22</sup> *Id.* at p. 11.

<sup>23</sup> This Court's ruling on preemption will affect claims arising from a wide variety of student loan servicer misrepresentations that will adversely affect student loan borrowers in ways that are both immediate—for example, misrepresentations that result in a failure to receive forgiveness under the Public Service Loan Forgiveness program—and over the life of the loan.

<sup>24</sup> See 31 U.S.C. § 3716(c)(3)(A)(i); *Lockhart v. United States*, 546 U.S. 142, 145-47 (2005) (discussing Social Security offset for defaulted federal student loan). The Department of Education's website explains the Treasury Offset Program's application to defaulted student loans. See <https://studentaid.ed.gov/sa/repay-loans/default/collections#treasury-offset> (last accessed August 27, 2019).

<sup>25</sup> 20 U.S.C. § 1095a.

borrowers ages 65+ in default were subject to offsets, as were 3% of those ages 50-64, compared with only 2% of defaulted borrowers under age 50.<sup>26</sup> The GAO identified critical problems with the Treasury Offset Program's application to older borrowers in a report diplomatically entitled "Social Security Offsets, Improvements to Program Design Could Better Assist Older Student Loan Borrowers with Obtaining Permitted Relief."<sup>27</sup>

The GAO found that the Treasury Offset Program reduces many older borrowers' Social Security retirement or disability benefits below the federal poverty guideline. Federal law protects only \$9,000 each year in Social Security benefits from offset, a figure that has not been updated for 23 years.<sup>28</sup> The protection of Social Security benefits at rates below the federal poverty level is particularly devastating because 69% of Social Security beneficiaries report that those benefits are the only guaranteed source of monthly income.<sup>29</sup> The GAO

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<sup>26</sup> Trawinski et al., *supra* footnote 5, at p. 5.

<sup>27</sup> U.S. GOVERNMENT ACCOUNTABILITY OFFICE, SOCIAL SECURITY OFFSETS, IMPROVEMENTS TO PROGRAM DESIGN COULD BETTER ASSIST OLDER STUDENT LOAN BORROWERS WITH OBTAINING PERMITTED RELIEF, GAO-17-45 (Dec. 2016), <https://www.gao.gov/assets/690/681722.pdf>.

<sup>28</sup> See 31 U.S.C. § 3716(c)(3)(A)(ii).

<sup>29</sup> CONSUMER FINANCIAL PROTECTION BUREAU, OFFICE FOR OLDER AMERICANS, ISSUE BRIEF: SOCIAL SECURITY CLAIMING AGE AND RETIREMENT SECURITY, p. 7 (Nov. 2015), [https://files.consumerfinance.gov/f/documents/201604\\_cfpb\\_issue-brief-social-security-claiming-age-and-retirement-security.pdf](https://files.consumerfinance.gov/f/documents/201604_cfpb_issue-brief-social-security-claiming-age-and-retirement-security.pdf).

concluded that in 2015 alone more than 70,000 seniors were pushed into or pushed further into poverty due to Social Security offsets from defaulted student debt.<sup>30</sup>

Older borrowers, their families and communities therefore have a strong interest in holding servicers accountable for their misrepresentations. A broad ruling in this case preempting misrepresentations would simply shift the costs of those misrepresentations onto older Pennsylvanians, their families, and the governmental and non-profit service providers who must step in to support them. There is no evidence that Congress intended such a result, and this Court should not endorse it.

**B. Borrowers of Color Are More Likely Than Their White Peers to Be Subjected to and Injured by Servicer Misrepresentations.**

**1. Historic and systemic racial disparities mean that students of color are more likely to experience difficulty repaying their student loans.**

Students of color face additional barriers in repaying student loan debt due to structural inequities in family wealth, education, and employment. Holding

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<sup>30</sup> U.S. GOVERNMENT ACCOUNTABILITY OFFICE, SOCIAL SECURITY OFFSETS, IMPROVEMENTS TO PROGRAM DESIGN COULD BETTER ASSIST OLDER STUDENT LOAN BORROWERS WITH OBTAINING PERMITTED RELIEF, GAO-17-45, p. 2 (Dec. 2016), <https://www.gao.gov/assets/690/681722.pdf>.

servicers accountable for misrepresentations to borrowers is critical for addressing racial disparities in student loan and other economic outcomes.

First, African-American students are forced to take on more student loan debt than their white peers. For generations, government-sanctioned policies like redlining, restrictive covenants, lending discrimination, and encouraging neighborhood segregation kept African-American families from accumulating wealth.<sup>31</sup> With less familial wealth, African-American students are more likely than other racial groups to borrow—and to borrow more—for their education.<sup>32</sup> A 2016 analysis found that African-American students on average graduated with about \$7,400 more student loan debt than their white peers.<sup>33</sup> Disparities in

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<sup>31</sup> See, e.g., Amy Traub et al., *The Asset Value of Whiteness: Understanding the Racial Wealth Gap*, DEMOS (2017), <http://www.demos.org/publication/asset-value-whiteness-understanding-racial-wealth-gap>; Katie Nodjimbadem, *The Racial Segregation of American Cities Was Anything But Accidental*, SMITHSONIAN (2017), <https://www.smithsonianmag.com/history/how-federal-government-intentionally-racially-segregated-american-cities-180963494/>.

<sup>32</sup> Mark Huelsman, *The Debt Divide: The Racial and Class Bias Behind the “New Normal” of Student Borrowing*, DEMOS (2015), <https://www.demos.org/publication/debt-divide-racial-and-class-bias-behind-new-normal-student-borrowing>.

<sup>33</sup> Judith Scott-Clayton and Jing Li, *Black-white disparity in student loan debt more than triples after graduation*, p. 3, THE BROOKINGS INSTITUTE (Oct. 2016), [https://www.brookings.edu/wp-content/uploads/2016/10/es\\_20161020\\_scott-clayton\\_evidence\\_speaks.pdf](https://www.brookings.edu/wp-content/uploads/2016/10/es_20161020_scott-clayton_evidence_speaks.pdf).

income alone do not explain the gap,<sup>34</sup> and these disparities only widen after graduation.<sup>35</sup>

Second, students of color are more likely to attend for-profit schools that leave all students ill-equipped for the job market. African-American and Latinx students are overrepresented in high-cost, low-quality for-profit institutions, which impose greater amounts of debt while failing to provide increased employment prospects and earning power through which to pay it off.<sup>36</sup>

Third, systemic discrimination in the labor market represents another barrier to repayment.<sup>37</sup> The Bureau of Labor Statistics finds that once in the workforce, graduates of color have lower wages than their white peers, even when controlling

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<sup>34</sup> Michal Grinstein-Weiss et al., *Racial disparities in education debt burden among low- and moderate-income households*, 65 CHILDREN AND YOUTH SERVICES REVIEW Vol. 166 (June 2016).

<sup>35</sup> Scott-Clayton and Li, *supra* note 33, at p. 3.

<sup>36</sup> Leadership Conference on Civil & Human Rights, *Gainful Employment: A Civil Rights Perspective*, p. 2, CENTER FOR RESPONSIBLE LENDING (Nov. 2014), <https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/2014-Gainful-Employment-A-Civil-Rights-Perspective-Oct.pdf>; Peter Smith and Leslie Parrish, *Do Students of Color Profit from For-Profit College? Poor Outcomes and High Debt Hamper Attendees' Futures*, CENTER FOR RESPONSIBLE LENDING (Oct. 2014), <http://www.responsiblelending.org/student-loans/research-policy/CRL-For-Profit-Univ-FINAL.pdf>.

<sup>37</sup> See, e.g., Lincoln Quillian, et al., *Meta-analysis of field experiments shows no change in racial discrimination in hiring over time*, 114(41) PROCEEDINGS OF THE NATIONAL ACADEMY OF SCIENCES OF THE UNITED STATES OF AMERICA 10870 (Oct. 2017), <https://www.pnas.org/content/pnas/early/2017/09/11/1706255114.full.pdf>.

for education level.<sup>38</sup> Because of the persistent income gap, African Americans are more likely to earn less money after college with which to repay their (higher) student loans. A study by the American Association of University Women concluded that “[g]ender and race gaps in pay can explain much of the differences in how quickly college graduates can repay their student loans.”<sup>39</sup>

Against these headwinds, students of color are more likely to experience financial distress on their student loans than their white counterparts,<sup>40</sup> with African-American and Latinx borrowers reporting higher rates of late payments compared to white borrowers.<sup>41</sup> One study found that “[f]our years after graduation 57 percent of Black women college graduates paying off their student loans were unable to meet all of their essential expenses at some point in the past

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<sup>38</sup> BUREAU OF LABOR STATISTICS, MEDIAN WEEKLY EARNINGS BY EDUCATIONAL ATTAINMENT IN 2014 (Jan. 2015), <https://www.bls.gov/opub/ted/2015/median-weekly-earnings-by-education-gender-race-and-ethnicity-in-2014.htm>.

<sup>39</sup> AMERICAN ASSOCIATION OF UNIVERSITY WOMEN, DEEPER IN DEBT, p. 28 (2017), <https://www.aauw.org/resource/deeper-in-debt/>.

<sup>40</sup> See Marshall Steinbaum and Kavya Vaghul, *How the student debt crisis affects African Americans and Latinos*, WASHINGTON CENTER FOR EQUITABLE GROWTH (Feb. 17, 2016), <http://equitablegrowth.org/how-the-student-debt-crisis-affects-african-americans-and-latinos/>.

<sup>41</sup> FINANCIAL INDUSTRY REGULATORY AUTHORITY, FINANCIAL CAPABILITY IN THE UNITED STATES 2016, p. 24 (2016), [http://www.usfinancialcapability.org/downloads/NFCS\\_2015\\_Report\\_Natl\\_Findings.pdf](http://www.usfinancialcapability.org/downloads/NFCS_2015_Report_Natl_Findings.pdf).

year.”<sup>42</sup> Older borrowers of color also experience significantly more distress than their white counterparts. AARP found that “[a]mong people ages 50 and older, there were significant differences by race. African Americans/Blacks and Hispanics were significantly more likely to exhibit signs of distress (46 and 49 percent, respectively) than Whites (29 percent).”<sup>43</sup>

These month-by-month struggles accumulate to increase the disparity in outcomes for students of color and their white counterparts. A 2016 analysis found that the Black-White student debt gap more than tripled from \$7,400 to \$25,000 in just four years after graduation.<sup>44</sup> Indeed, the typical African-American student who started college in 2003-04 and took on debt owed 113% of what they originally borrowed 12 years later, while the typical white borrower owed around 65% of their original loan balance.<sup>45</sup> The Urban Institute also found that borrowers of color defaulted on their student loans at significantly higher rates than their white counterparts. In Pennsylvania, 10% of white borrowers had student loan

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<sup>42</sup> AAUW, *DEEPER IN DEBT*, *supra* footnote 39, at p. 30.

<sup>43</sup> Trawinski et al., *supra* footnote 5, at p. 8.

<sup>44</sup> Scott-Clayton and Li, *supra* note 33, at p. 3.

<sup>45</sup> Ben Miller, *New Federal Data Show a Student Loan Crisis for African American Borrowers*, CENTER FOR AMERICAN PROGRESS (Oct. 16, 2017), <https://www.americanprogress.org/issues/education-postsecondary/news/2017/10/16/440711/new-federal-data-show-student-loan-crisis-african-american-borrowers/>.

debt in collections, compared with 25% of non-white borrowers.<sup>46</sup> In New Jersey, it is 7% of white borrowers and 17% of nonwhite borrowers.<sup>47</sup> In Delaware, it is 12% and 20%.<sup>48</sup> These racial disparities in default rates extend beyond borrowers' immediate families and into their surrounding communities. Research by the Washington Center for Equitable Growth found that zip codes with higher shares of African Americans or Latinxs show much higher delinquency rates on their student loans.<sup>49</sup> When combined with the government's collection practices described above, servicer misconduct systematically strips wealth from families and communities which are already economically disadvantaged and disproportionately of color.<sup>50</sup>

The systemic barriers to repayment mean that students of color are more likely than their white peers to be exposed to servicer misrepresentations about forbearance and IDR. Servicers' misrepresentations add to the cost of minority borrowers' loans, perpetuating and even widening these unjust socioeconomic disparities.

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<sup>46</sup> THE URBAN INSTITUTE, DEBT IN AMERICA: AN INTERACTIVE MAP (2018), [https://apps.urban.org/features/debt-interactive-map/?type=student&variable=perc\\_stud\\_debt](https://apps.urban.org/features/debt-interactive-map/?type=student&variable=perc_stud_debt).

<sup>47</sup> *Id.*

<sup>48</sup> *Id.*

<sup>49</sup> Steinbaum and Vaghul, *supra* footnote 40.

<sup>50</sup> *Id.*

**2. Servicer misrepresentations impose additional costs on students of color and reinforce systemic inequality.**

Servicer misrepresentations like those described in the Commonwealth's Complaint contribute to the disparate student loan outcomes described above. One analysis found that the highest proportion of African-American families report "not making payments" on student loans because they are in forbearance, unable to afford payments, or in another loan forgiveness program.<sup>51</sup> Most borrowers in this position are eligible for IDR plans, which would help them avoid both default and the increased costs imposed by forbearance.

Misrepresentations that steer borrowers into forbearance as the Commonwealth alleges can significantly increase the amount a borrower pays over the life of the loan. Borrowers accrue mounting interest during forbearances on unsubsidized loans, which is then capitalized into the borrower's principal at the end of each forbearance. The loan's principal balance thereby increases and the borrower must then pay interest *on that interest* until the loan is paid off. These costs can be staggering.

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<sup>51</sup> Kristin Blagg, *The demographics of income-driven student loan repayment*, URBAN WIRE (Feb. 2018); <https://www.urban.org/urban-wire/demographics-income-driven-student-loan-repayment>.

The Government Accountability Office (GAO) estimated that a borrower owing \$30,000 in federal loans who spent three years in a forbearance would pay \$6,742 more than a borrower on the 10-year standard repayment plan who did not spend any time in forbearance.<sup>52</sup> The GAO explained that servicers' encouragement of forbearance over other better options like IDR places borrowers at risk of incurring additional costs without any long-term benefits.<sup>53</sup>

The increased costs imposed by the forbearance steering practices alleged by the Commonwealth in turn exacerbate and perpetuate the same systemic inequalities described above for generations to come. For example, student loan borrowers regularly report delaying financial milestones like purchasing a home.<sup>54</sup> One analysis found that borrowers enrolled in IDR paid off more per month, on average, than borrowers on standard repayment plans, had higher credit scores, and

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<sup>52</sup> U.S. GOVERNMENT ACCOUNTABILITY OFFICE, FEDERAL STUDENT LOANS: ACTIONS NEEDED TO IMPROVE OVERSIGHT OF SCHOOLS' DEFAULT RATES, GAO-18-163, p. 19 (April 2018), <https://www.gao.gov/assets/700/691520.pdf>.

<sup>53</sup> U.S. GOVERNMENT ACCOUNTABILITY OFFICE, FEDERAL STUDENT LOANS: EDUCATION COULD IMPROVE DIRECT LOAN PROGRAM CUSTOMER SERVICE AND OVERSIGHT, GAO-16-523, p. 20 (May 2016), <https://www.gao.gov/assets/680/677159.pdf>.

<sup>54</sup> *E.g.*, Kelley Anne Smith, *Survey: Student loan debt delays major financial milestones for millions*, BANKRATE (Feb. 27, 2019), <https://www.bankrate.com/loans/student-loans/student-loans-survey-february-2019/>; Annie Nova, *Why buying a home can be almost impossible with massive student loan debt*, CNBC (April 19, 2018), <https://www.cnbc.com/2018/04/19/student-loan-debt-can-make-buying-a-home-almost-impossible.html>.

were more likely to hold a mortgage, “suggesting a positive effect of IDR on homeownership.”<sup>55</sup> Where home ownership is delayed because servicer misrepresentations increase borrowing costs and delay loan payoff, borrowers of color experience yet another obstacle to building generational wealth. The same dynamic plays out when delayed student loan payoff caused by servicer misrepresentations delays or diminishes borrowers’ opportunity to pay for their children’s educations. In a recent AARP survey,

[M]illennials and generation Xers also said their student loan debt has prevented or delayed their ability to save for their children’s education. This inability to save increases the likelihood they will need to borrow when the time comes for their children to attend college, thus perpetuating the intergenerational student loan debt cycle.<sup>56</sup>

Borrowers of color and their communities therefore have a heightened interest in preserving their rights under state consumer protection laws to combat unfair and deceptive practices by student loan servicers. Beyond the harm to individual borrowers, insulating servicers from such state law claims exacerbates racial economic gaps and hinders minorities’ ability to obtain wealth and security.

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<sup>55</sup> Herbst, Daniel J., *Liquidity and Insurance in Student Loan Contracts: Estimating the Effects of Income-Driven Repayment on Default and Consumption*, pp. 4-5 (Working Paper, March 12, 2019), [https://drive.google.com/file/d/1A-gg\\_LIqffY6r2gDTcUK9-Y3ZV8Go6SU/view](https://drive.google.com/file/d/1A-gg_LIqffY6r2gDTcUK9-Y3ZV8Go6SU/view).

<sup>56</sup> Trawinski et al., *supra* note 5, at p. 2.

## **II. THE HEA DOES NOT PREEMPT CLAIMS ARISING FROM SERVICERS' AFFIRMATIVE MISREPRESENTATIONS.**

Congress drafted 20 U.S.C. § 1098g narrowly, to apply only to state “disclosure” requirements, and the District Court properly rejected Navient’s attempt to expand that clause to reach virtually all misrepresentations made to student loan borrowers. The Commonwealth’s Pennsylvania Consumer Protection Law (“CPL”) claim complements and reinforces the HEA, and this Court should therefore decline to find conflict preemption.

### **A. Claims Based on Servicer Misrepresentations and False Promises Concerning Its Own Actions Are Not Preempted by § 1098g.**

The Commonwealth alleges that Navient deceived borrowers about its own conduct by representing that it would help borrowers “by identifying options and solutions” and “find an option that fits your budget, simplifies payment, and minimizes your total interest cost.” [Appx. at p. 130, ¶ 108.] Section 1098g cannot preempt state law claims arising from these misrepresentations for two reasons. First, § 1098g, applies only to “*Loans* made, insured, or guaranteed pursuant to a program authorized by title IV of the Higher Education Act of 1965.” (Emphasis added.) This statutory language is limited to disclosures about the loans themselves; it cannot be stretched to cover misrepresentations about Navient’s actions. *See Altria Grp., Inc. v. Good*, 555 U.S. 70, 77 (2008) (“[W]hen the text of a pre-emption clause is susceptible of more than one plausible reading, courts

ordinarily accept the reading that disfavors pre-emption.”) (internal quotation marks omitted).

Second, where a company voluntarily undertakes a duty, liability for the breach of that duty is not preempted, even if the plaintiff asserts a state law cause of action. In *Cipollone v. Liggett Grp., Inc.*, 505 U.S. 504, 525 (1992), the plaintiff asserted a breach of express warranty claim against a cigarette manufacturer under a New Jersey statute that provided that where a seller of goods affirms a fact or makes a promise, it “creates an express warranty that the goods shall conform to the affirmation or promise.” Liability under this statute did not fall within an express preemption clause covering any “requirement or prohibition based on smoking and health ... imposed under State law....” It reasoned that

While the general duty not to breach warranties arises under state law, the particular “requirement ... based on smoking and health ... with respect to the advertising or promotion [of] cigarettes” in an express warranty claim arises from the manufacturer's statements in its advertisements. In short, a common-law remedy for a contractual commitment voluntarily undertaken should not be regarded as a “requirement ... *imposed under State law*” within the meaning of [the express preemption clause].

*Id.* at 526 (emphasis in original). See also *College Loan Corp. v. SLM Corp.*, 396 F.3d 588, 598 (4th Cir.2005) (where parties’ contract incorporated HEA standards, breach of contract action based on violation of federal standards was not preempted).

Just as the statute at issue in *Cipollone* preempted only “requirement[s] or prohibition[s] ... imposed under state law,” § 1098g only reaches “disclosure requirements of any State law.” Navient’s promises to borrowers—whether made on its website or during telephone conversations—created an obligation to act in conformity with its representations, not a “disclosure requirement” under Pennsylvania law. Navient cannot shoehorn its broken promises into §1098g by arguing that it represented only that it would make disclosures required by federal law. [App. Br. at 39-40.] This argument ignores the statutory language, the lessons of *Cipollone* and *College Loan Corp.*, and the fact that no federal law required Navient to make, much less break, promises to borrowers.

**B. The Commonwealth’s Misrepresentation-Based Claims Cannot Be Re-Cast as “Improper Disclosure” Claims Preempted by § 1098g.**

The Ninth Circuit’s decision in *Chae v. SLM Corp.*, 593 F.3d 936 (9th Cir. 2010), does not support Navient’s attempt to expand § 1098g’s preemption of state “disclosure requirements” to shield it from liability for affirmative misrepresentations. The *Chae* court’s express preemption holding rests on a faulty premise, but even if it were analytically sound the Commonwealth’s claims are distinguishable, such that *Chae*’s holding does not apply here. There, the Ninth Circuit applied § 1098g to bar state misrepresentation claims arising from Sallie Mae’s billing statements. 593 U.S. § 942. The *Chae* court reasoned that “[a]

properly-disclosed FFELP practice cannot simultaneously be misleading under state law,” and because the billing statements’ contents were dictated by the Department of Education’s regulations, the plaintiff’s claims that they were misrepresentations “are restyled improper-disclosure claims, and are therefore subject to express preemption.” *Id.* at 943. *Chae*’s discussion of *Cipollone* is incomplete and misleading, and neither case supports dismissal of the Commonwealth’s claims.

In *Cipollone*, the Supreme Court addressed preemption under the Public Health Cigarette Smoking Act of 1969 (the “1969 Act”). That statute mandated specific warnings for packaging and advertisements, and included the following preemption provision: “No requirement or prohibition based on smoking and health shall be imposed under State law with respect to the advertising or promotion of” cigarettes. *See Cipollone*, 505 U.S. at 515 (quoting 15 U.S.C. § 1334(b)). The plaintiff asserted two misrepresentation theories.

First, *Cipollone* alleged that Liggett’s advertising “neutralized the effect of federally mandated warning labels.” *Id.* at 527. This “neutralization” theory was based on a state law prohibition on statements minimizing the dangers of smoking.

*Id.* The *Cipollone* plurality reasoned that it was preempted:

Such a *prohibition*, however, is merely the converse of a state-law *requirement* that warnings be included in advertising and promotional materials. Section 5(b) of the 1969 Act pre-empts both requirements

and prohibitions; it therefore supersedes petitioner’s first fraudulent-misrepresentation theory.

*Id.* (emphasis in original).

The *Chae* court latched onto this holding to conclude that certain of the student loan plaintiffs’ misrepresentations claims were merely “restyled improper disclosure” claims and therefore preempted by § 1098g. 593 F.3d at 943. But *Chae* failed to address, much less explain, why adopting *Cipollone*’s “restyling” of misrepresentation claims was appropriate in light of differences in preemption clauses that each case interpreted. In *Cipollone*, the clause preempted state laws regardless of whether they constituted a “requirement or prohibition.” 15 U.S.C. § 1334(b). There was no need for the *Cipollone* plurality to “restyle” or “recharacterize” the plaintiff’s misrepresentation claim as a “requirement” because it was preempted either way.

The *Cipollone* plurality’s dictum should not be read, as *Chae* uncritically did, as license to broaden § 1098g, which applies only to state law disclosure “requirements.” Just the opposite is true: the 1969 Act shows that Congress knew how to craft broader preemption clauses, and this Court should decline to rewrite § 1098g to broadly reach traditional state consumer protection “prohibitions” on misrepresentations where Congress chose not to do so. In any event, the Commonwealth’s misrepresentation claims are not the type of “disclosure neutralization” that justified recharacterization in *Cipollone*.

Second, *Cipollone* advanced a fraud claim based on affirmative misrepresentations and the concealment of material facts relating to “light” cigarettes, *Cipollone*, 505 U.S. at 528, that is far more analogous to the Commonwealth’s claims. The *Cipollone* plurality did not re-characterize this claim, and refused to find preemption because it was predicated “on a more general obligation the duty not to deceive.” *Id.* at 528-29. In *Altria*, 555 U.S. at 79–82, the majority reaffirmed that state-law misrepresentation claims based on affirmative representations were not preempted.

Even if *Chae*’s unexamined adoption of the *Cipollone* plurality’s dictum was appropriate in some limited circumstances, the Commonwealth’s claims are not among them. At most, *Chae* supports the preemption of misrepresentation claims as “restyled improper disclosure” claims where state law would prohibit servicers from making statements required by federal regulations. *Chae*, 593 F.3d at 942-43. Indeed, the *Chae* court declined to recharacterize misrepresentation claims outside the servicer’s billing statements, and the Commonwealth’s misrepresentation claims do not seek to interfere with “[a] properly-disclosed FFELP [or Direct Loan] practice.” *Id.* at 943. In keeping with the presumption against preemption, the Court should decline Navient’s invitation to expand § 1098g’s scope beyond Congress’s intent. *Altria*, 555 U.S. at 77.

The Commonwealth alleges an over-arching scheme to steer borrowers into forbearances rather than IDR. As the Commonwealth explains, Navient sometimes did so by representing that forbearance was the borrower's only option. [See Appx at p. 135, ¶ 126; p. 137, ¶ 130.] For federal student loan borrowers, this statement is false because it states that other options do not exist or are inapplicable to the borrower, when in fact IDR plans are available. This misrepresentation therefore goes beyond a mere failure to disclose IDR, and the Commonwealth's claim cannot be recharacterized as one for "improper disclosure" even under the logic of *Chae*.

**C. The Commonwealth's CPL Claims Do Not Conflict with the HEA.**

This Court should reject Navient's argument that Congress's purposes in the HEA – a statute intended to help students get a degree and provide a better life for their families – would be frustrated by the CPL's prohibition on servicer misrepresentations made to those very same students after they graduate, increasing the cost of their loans and imposing the harms described above.

The Eleventh Circuit rejected this notion, holding that "many provisions of state consumer protection statutes do not conflict with the HEA or its regulations, and many state law provisions ... actually complement and reinforce the HEA." *Cliff v. Payco Gen. Am. Credits, Inc.*, 363 F.3d 1113, 1130 (11th Cir. 2004). The *Cliff* court held that a Florida statute prohibiting debt collectors from asserting non-

existent legal rights did not pose an obstacle to accomplishment of HEA-mandated collection activities. *Id.* at 1127-31. The West Virginia Supreme Court agreed, explaining that

We find the Eleventh Circuit’s reasoning compelling. There would appear to be nothing which would conflict with or frustrate the requirements and purposes of the HEA and [Federal Family Education Loan Program (FFELP)] by also precluding under State law, making a “false representation” about the “character, extent or amount” of a debt. While certain due diligence collection activities are required by the FFELP regulations, making “false representations” about the nature of a debt is certainly not one of them.

*Adams v. Pa. Higher Educ. Assistance Agency*, 787 SE 2d 583, 591-92 (W. Va. Sup. Ct. 2016). The Ninth Circuit also explained that state law claims that “seek to buttress the FFELP framework” do not conflict with the HEA. *Chae*, 593 F.2d at 946.

The Commonwealth’s claims complement and reinforce the HEA. Congress created IDR plans to assist borrowers struggling to make standard monthly payments. 20 U.S.C. § 1098e(a)(3) (defining “partial financial hardship”). These federal plans are thwarted and their intended beneficiaries – including older borrowers and borrowers of color – are harmed by servicer misrepresentations about the plans’ availability, advisability, and requirements. The Commonwealth’s Pennsylvania Consumer Protection Law claims therefore promote Congress’s purpose to assist struggling borrowers. There is no conflict.

Even if “uniformity” were an objective of the HEA (which it is not), the Pennsylvania Consumer Protection Law does not conflict with it. The Supreme Court has recognized a “general obligation — the duty not to deceive,” and held that “[s]tate-law prohibitions on false statements of material fact do not create ‘diverse, nonuniform, and confusing’ standards” that would merit preemption. *Cipollone*, 505 U.S. at 528-29. The Supreme Court has therefore repeatedly refused to find that state fraud claims impinge on federal interests in uniformity because “fraud claims ‘rely only on a single, uniform standard: falsity.’” *Id.*; *Altria*, 555 U.S. at 80 (same). Moreover, “the extent of the alleged falsehood does not alter the nature of the claim,” and the “holding in *Cipollone* that the common-law fraud claim was not preempted is directly applicable to the statutory claim [under the Maine Unfair Trade Practices Act] in this case.” *Altria*, 555 U.S. at 82. Courts across the country have applied this reasoning to reject uniformity-based preemption of common law misrepresentation, consumer protection statutes, and similar claims. *E.g.*, *Gorton v. American Cyanamid Co.*, 533 N.W.2d 746, 755 (Wis. Sup. Ct. 1995) (holding that misrepresentation claim “survives preemption” because “FIFRA simply seeks uniformity in labeling and packaging,” and “its preemptive effect does not encompass the general duty not to make false Statements”). The Commonwealth’s CPL claims do not conflict with the HEA, and the District Court’s order should be affirmed.

## CONCLUSION

A broad preemption ruling in this case would deprive injured borrowers of any legal remedy for servicer misrepresentations, shifting the consequences onto borrowers struggling to repay their student loans despite their best efforts. Older borrowers, whose financial circumstances and cognitive changes make them more susceptible to servicer misrepresentations, may lose part of the Social Security benefits they worked for decades to earn. Even worse, misrepresentations to borrowers of color have the capacity not just to harm the borrowers themselves, but to perpetuate and increase the very systemic barriers to socioeconomic advancement that higher education is supposed to break down. Congress did not intend for § 1098g to deprive borrowers of their only remedy for such misconduct, and state law claims that promote Congress's purpose in creating IDR plans and facilitate loan repayment do not conflict with the HEA. Amici therefore respectfully request that this Court affirm the district court's ruling that the HEA does not preempt the Commonwealth's claims.

Date: August 29, 2019

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## CERTIFICATE OF COUNSEL

I, Benjamin J. Roesch, hereby certify as follows:

1. I am a member of the bar of this Court.
2. The text of the electronic version of this brief is identical to the text of the paper copies.
3. A virus detection program was run on the file and no virus was detected.
4. This brief contains 6,425 words in compliance with Fed. R. App. Proc. 29(a)(5). In making this certificate, I have relied on the word count of Microsoft Word, the word-processing system used to prepare the brief.

Date: August 29, 2019

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## CERTIFICATE OF SERVICE

I hereby certify that on August 29, 2019, I electronically filed the foregoing Motion for Leave to File Amicus Curiae Brief in Support of Appellee with the Clerk of the Court for the United States Court of Appeals for the Third Circuit by using the appellate CM/ECF system. I certify that all participants in this case are registered CM/ECF users and that service will be accomplished by the CM/ECF system. I also caused seven copies of the foregoing brief to be served by Federal Express to the Clerk of the Court for the United States Court of Appeals for the Third Circuit.

Date: August 29, 2019

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