OCT 16 2014

CFPB Report Finds Distressed Private Student Loan Borrowers Driven Into Default

Bureau Publishes Sample Letter to Help Borrowers Request Repayment Options

WASHINGTON, D.C. –Today, the Consumer Financial Protection Bureau (CFPB) Student Loan Ombudsman released a report highlighting complaints by struggling private student loan borrowers who describe being driven into default. Distressed borrowers report that they receive very little information or help when they get in trouble, that there are no affordable loan modification options available, and that the alternatives to default are temporary at best.

"We are hearing from consumers that they are driven into default because private student loan companies are not providing concrete loan modification options," said CFPB Director Richard Cordray. "Struggling private student loan borrowers are finding themselves out of luck and out of options. Lenders and servicers must redouble their efforts to deal with these distressed borrowers."

"The response by the private student loan industry to distressed borrowers is failing to help them avoid default," said CFPB Student Loan Ombudsman Rohit Chopra, who submitted the report. "Too many borrowers are barely treading water, losing hope that these companies will throw them a lifeline."

The 2014 CFPB Student Loan Ombudsman's Annual Report is available at: http://files.consumerfinance.gov/f/201410_cfpb_report_annual-report-of-the-student-loan-ombudsman.pdf

Today's report analyzes more than 5,300 private student loan complaints between Oct. 1, 2013 and Sept. 30, 2014, an increase of 38 percent over the previous year. It highlights that many consumers expressed a commitment to repaying their loans, if they could qualify for a payment plan that reflected their current financial circumstances. But, instead, many of these borrowers are being driven to default because no viable repayment options are available to them. When a consumer defaults on their private student loan, the whole balance may become due in full, immediately. This usually causes damage to a consumer's credit profile. It can also negatively affect a consumer's ability to pass a background check for a job, obtain housing, and impede access to other forms of credit.

Today's report outlines a number of ways that private student loan borrowers describe being driven to default. Analysis of the complaints revealed:

- **Little information on ways to avoid default:** CFPB heard from many borrowers struggling to repay their private student loans that they are unaware of what loan modifications are available and what the criteria for qualifying are. The information was not readily available on these lenders' or servicers' websites.

Receive press releases by email

Email address

SIGN UP

More Information On

Press Release Loans Students

Consumer Financial Protection Bureau

Need our logo? You can find it here.

Photos and bios

Director Rich Cordray

Deputy Director Steven Antonakes

Press contacts

Jen Howard
Assistant Director of Communications
(202) 435-7170
Jennifer.Howard@cfpb.gov

Walter Suskind
Press Assistant
(202) 435-9469
Walter.Suskind@cfpb.gov

Mallory McLean
Regional Spokesperson
(202) 435-7955
Mallory.Mclean@cfpb.gov

Moira Vahey
Spokesperson

Many struggling borrowers also reported receiving conflicting or inaccurate information as they were bounced between multiple customer service representatives.

- **No affordable loan modifications available:** Federal student loan borrowers are entitled, by law, to a range of affordable loan modification options, including income-based repayment, extended loan terms, and plans that start with a small payment and increase over time. These same options are not available for private student loan borrowers. Instead, consumers complained that private student lenders and servicers tell them that they are not eligible for any affordable repayment plan that would allow them to avoid default.
- **Temporary fixes that only delay default:** Borrowers report that while many private student lenders and servicers do not offer affordable repayment plans, some may offer temporary forbearance. This short-term fix may delay default by giving borrowers a brief period where no payment is due, often just a few months. Even for these temporary forbearance options, though, borrowers complain of burdensome enrollment fees and processing delays, sometimes leading to surprise defaults.

In 2005, changes to federal bankruptcy law created special treatment for private student loans, making it more difficult for consumers to discharge this debt. These changes may have a harmful unintended consequence to borrowers in distress – creating a disincentive for lenders to offer flexible options for borrowers seeking help. In 2012, the CFPB and the Department of Education recommended that Congress re-examine whether the 2005 bankruptcy code changes met their desired policy goals and whether changes are needed.

Based on public comments on the potential impacts of student debt on the broader economy, the CFPB published a report in May 2013 that described a mix of tools that could be offered to private student loan borrowers to avoid default. One option is that lenders and servicers could provide a substantially lower payment if the repayment term is extended over additional years. Another option is to provide an interest-rate reduction. And, in circumstances where borrowers are in the most trouble on the riskiest loans, a reduction in the outstanding principal balance could potentially lead to higher levels of recovery.

In July 2013, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Federal Reserve Board of Governors issued a joint statement to all supervised financial institutions encouraging them to work constructively with private student loan borrowers facing distress, as this may be in the best interest of both the borrower and the financial institution. But complaints and other market data received by the CFPB suggest the industry is not making significant progress toward increasing the pace of loan modifications.

Helping Borrowers in Distress

Today, the CFPB also offered new tools to help borrowers take action when they run into trouble. The CFPB released a sample letter that consumers can edit and send to their student loan servicer to request lower monthly payments and information on available repayment plans. They can download the sample letter to send by mail, or they can just cut and paste the text when they log into their account on the servicer's website. The letter requests student loan payments that would allow borrowers to meet their other living expenses.

The sample letter can be found at:
http://files.consumerfinance.gov/f/201410_cfpb_students_sample-letter.doc

The Bureau has also developed a sample financial worksheet to assist borrowers to determine maximum funds available to pay their student loans.

(202) 435-9151
Moira.Vahey@cfpb.gov

Sam Gilford
Spokesperson
(202) 435-7673
Samuel.Gilford@cfpb.gov

Archive

The worksheet can be found at: http://files.consumerfinance.gov/f/201410_cfpb_students_sample-financial-worksheet.doc

Student loan borrowers can also find help using the CFPB's Repay Student Debt tool. This interactive resource offers a step-by-step solution to navigate borrowers through their options, especially when facing default.

The Dodd-Frank Wall Street Reform and Consumer Protection Act established an ombudsman for student loans within the CFPB to assist borrowers with student loan complaints. The ombudsman is submitting today's annual report to the Director of the CFPB, the Secretary of the Treasury, the Secretary of Education, and Congress.

In March, the CFPB's rule allowing the Bureau to supervise some of the nation's largest nonbank student loan servicers went into effect. The CFPB estimates that there is $1.2 trillion in outstanding student loan debt, with more than 7 million Americans in default.

More information is at: consumerfinance.gov/students.

###

The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.